IMPORTANT NOTICE

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FWD GROUP LIMITED

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$250,000,000 5.75 per cent. Subordinated Notes due 2024

(to be consolidated and form a single series with the U.S.$550,000,000 5.75 per cent. Subordinated Notes issued on 9 July 2019)

Issue Price: 101.07 per cent.
(plus accrued interest from, and including, 9 July 2019, but excluding, the Issue Date)

The U.S.$250,000,000 5.75 per cent. Subordinated Notes due 2024 (the "**New Notes**") will be issued by FWD Group Limited (the "**Issuer**") and will be direct, unsecured and subordinated obligations of the Issuer which ranks *pari passu* and without any preference or priority of payment among themselves and with any Parity Obligations (as defined in the "*Terms and Conditions of the Notes*" in the Original Offering Circular (as defined below)) of the Issuer. Such New Notes will be consolidated and form a single series with the U.S.$550,000,000 5.75 per cent. Subordinated Notes due 2024 issued on 9 July 2019 (the "**Original Notes**" and, together with the New Notes, the "**Notes**"). The terms and conditions for the New Notes are the same as those for the Original Notes in all respects, except for the Issue Price, and the New Notes and the Original Notes will vote together as a single series on all matters with respect to the Notes. Upon the issue of the New Notes, the aggregate principal amount of outstanding Notes will be U.S.$800,000,000.

Interest on the Notes is payable semi-annually in arrear on 9 January and 9 July in each year, commencing on 9 January 2020. Payments on the Notes will be made without deduction for or on account of taxes of the Cayman Islands to the extent described under "*Terms and Conditions of the Notes—Taxation*" in the offering circular relating to the Original Notes dated 4 July 2019 (the "**Original Offering Circular**").

The Notes mature on 9 July 2024 at their principal amount but may be redeemed before then, in whole but not in part, at the option of the Issuer, subject to certain provisos, (i) at their principal amount, together with interest accrued to the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting the taxes of the Cayman Islands or Hong Kong (see "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons*" in the Original Offering Circular), (ii) at 101 per cent. of the outstanding principal amount of the Notes, together with any interest accrued but unpaid to the date fixed for redemption, if an Initial Public Offering (as defined in the "*Terms and Conditions of the Notes*" in the Original Offering Circular) has occurred (see "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption upon an initial public offering*" in the Original Offering Circular) or (iii) at 101 per cent. of the outstanding principal amount of the Notes, together with any interest accrued but unpaid to the date fixed for redemption, upon the occurrence of a Change of Control (as defined in "*Terms and Conditions of the Notes*" in the Original Offering Circular) (see "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption upon Change of Control*" in the Original Offering Circular), on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable). By the 30th day following the occurrence of a Change of Control, if the Issuer does not give an irrevocable notice to redeem the Notes, the Rate of Interest (as defined in the "*Terms and Conditions of the Notes*" in the Original Offering Circular) will increase to the aggregate of 5.00 per cent. per annum and the Rate of Interest, with effect from (i) the next Interest Payment Date (as defined in the "*Terms and Conditions of the Notes*" in the Original Offering Circular); or (ii) if the date on which a Change of Control occurs is prior to the most recent preceding Interest Payment Date, such Interest Payment Date, as set out in "*Terms and Conditions of the Notes—Interest—Increase in Rate of Interest following a Change of Control*" in the Original Offering Circular.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**SEHK**") for the listing of the New Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Investing in the New Notes involves certain risks. See "*Risk Factors*" beginning on page 9 of the Original Offering Circular for a description of certain factors to be considered in connection with an investment in the New Notes.

The New Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States. The New Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**"). For a description of these and certain further restrictions on offers and sales of the New Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

The New Notes will be represented by beneficial interests in a global certificate (the "**Global Note Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 23 July 2019 (the "**Closing Date**") with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the New Notes will not be issued in exchange for interests in the Global Note Certificate.

Joint Lead Managers and Joint Bookrunners

HSBC **Standard Chartered Bank** **UBS**

This Supplemental Offering Circular is dated 18 July 2019.

IMPORTANT NOTICE

This Supplemental Offering Circular incorporates by reference all information contained in the Original Offering Circular as set out in Annex 1 of this Supplemental Offering Circular and should be read in conjunction with the Original Offering Circular (together, the "**Offering Circular**"). The information in this Supplemental Offering Circular supersedes the information in the Original Offering Circular to the extent inconsistent with the information in the Original Offering Circular.

Terms used but not defined herein shall have the meanings given to them in the Original Offering Circular.

This Supplemental Offering Circular has been prepared by us solely for use in connection with the proposed placement of the New Notes. The Issuer, the Guarantor, as well as The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and UBS AG Hong Kong Branch, incorporated in Switzerland with limited liability (together, the "**Joint Lead Managers**") reserve the right to withdraw the offering of the New Notes at any time or to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the New Notes offered hereby.

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries (collectively, the "**Group**") and their affiliates taken as a whole, and the New Notes, that is material in the context of the issue and offering of the New Notes (including all information which, according to the particular nature of the Issuer and the Group, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Group and of the rights attaching to the New Notes); (ii) the statements contained in this Offering Circular relating to the Issuer, the Group, their affiliates and the New Notes are in all material respects true and accurate and not misleading; (iii) the opinions and intentions relating to the Issuer and the Group expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other material facts relating to the Issuer, the Group, their affiliates and the New Notes, the omission of which would, in the context of the issue and offering of the New Notes, make any statement in this Offering Circular, in light of the circumstances under which it was made, misleading; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the New Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the New Notes in certain jurisdictions may be restricted by law. Persons who are in possession of this Offering Circular are required by each of the Issuer, the Guarantor, the Joint Lead Managers and the Agents (as defined in "*Terms and Conditions of the Notes*" in the Original Offering Circular) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the New Notes or the possession or distribution of this Offering Circular or any offering or publicity material relating to the New Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the New Notes and the circulation of documents relating thereto in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the New Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the New Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the New Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised in connection with the issue, offer or sale of the New Notes to give any information or to make any representation concerning the Issuer, the Group and the New Notes other than as contained herein, and if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Group, the Joint Lead Managers or the Agents or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the New Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably and likely to involve a change in the affairs of the Issuer or the Group, or any of them since the date hereof, or create any implication that the information contained herein is correct as at any date subsequent to the date of such information. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers or the Agents or any of their respective affiliates to subscribe for or purchase any of the New Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer in connection with the offering of the New Notes solely for the purpose of enabling a prospective investor to consider purchasing the New Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the New Notes offered by this Offering Circular is prohibited. Each offeree of the New Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or the Agents or any of their respective affiliates, directors or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the New Notes, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Agents or any of their respective affiliates. The Joint Lead Managers, the Agents and their respective affiliates have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Group or the issue and offering of the New Notes. Each of the Joint Lead Managers, the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise that it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers undertakes to review the financial condition or affairs of the Issuer or the Group for so long as the New Notes remain outstanding nor to advise any investor or potential investor of the New Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or their respective affiliates.

This Offering Circular is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by the Issuer, the Joint Lead Managers or the Agents that any recipient of this Offering Circular should purchase the New Notes. Each potential purchaser of the New Notes should determine for itself the relevance of the information contained in this Offering Circular, and its purchase of the New Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

Any of the Joint Lead Managers and their respective affiliates may purchase the New Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the New Notes and/or other securities of the Issuer or their respective subsidiaries or associates at the same time as the offer and sale of the New Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separated from any existing sale or resale of the New Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the New Notes). Furthermore, investors in the New Notes may include entities affiliated with the Group.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Listing of the New Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Group or the New Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the Terms and Conditions, including the merits and risks involved. See "*Risk Factors*" in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the New Notes.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, an investor should consult his or her adviser.

IN CONNECTION WITH THE ISSUE OF THE NEW NOTES, THE JOINT LEAD MANAGER APPOINTED AND ACTING IN ITS CAPACITY AS STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE JOINT LEAD MANAGER) (THE "STABILISING MANAGER") MAY OVER ALLOT NEW NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NEW NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY

BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE NEW NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NEW NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Issuer, the Group, the Joint Lead Managers and the Agents and their respective affiliates are not making any representation to any purchaser of the New Notes regarding the legality of any investment in the New Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer believes this information to be reliable, it has not been independently verified by the Issuer, the Joint Lead Managers, the Agents or their respective directors, advisers and affiliates, and none of the Issuer, the Joint Lead Managers, the Agents or their respective directors, advisers, affiliates or employees makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants, and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offering of the New Notes. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the New Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018).

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Group*" in the Original Offering Circular and elsewhere in the Offering Circular constitute "forward-looking statements". Words such as "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. However, these words are not the exclusive means of identifying forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position and results of operations, business strategy, prospects, capital expenditure and investment plans of the Issuer and the plans and objectives of the Issuer's management for its future operations (including development plans and objectives relating to the Issuer's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or performance of the Issuer to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. These forward-looking statements speak only as of the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's expectations with regard thereto or any change of events, conditions or circumstances on which any such statements were based. The Original Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results, performances or achievements of the Issuer to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

CERTAIN TERMS AND CONVENTIONS

Except as otherwise indicated or required by context, all references in this Offering Circular to the "**Group**" are to the Issuer and its subsidiaries taken as a whole.

Unless otherwise specified or the context otherwise requires, references to "U.S." or "United States" are to the United States of America, "Thai baht" or "THB" are to the lawful currency of Thailand, "Japanese yen" or "JPY" are to the lawful currency of Japan, "Indonesian rupiah" or "IDR" are to the lawful currency of Indonesia, "Philippine peso" or "PHP" are to the lawful currency of the Philippines, "Singapore dollars" or "SGD" are to the lawful currency of Singapore, and "U.S. dollars" or "U.S.$" are to the lawful currency of the United States.

This Offering Circular contains translations of certain foreign currency amounts into U.S. dollars, and vice versa, at specific rates solely for the convenience of the reader shown in the table below. No representation is made that the foreign currency amounts or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars, or foreign currencies at any particular rate or at all. Exchange rates used in this Offering Circular for profit and loss items are an average of exchange rates prevailing for the relevant years indicated. Exchange rates for balance sheet items are the spot rate as at the relevant dates.

U.S. dollar exchange rates as at and for the calendar year ended 31 December 2017:

	Profit and Loss	Balance Sheet
Thailand	33.934	32.620
Philippines	50.403	49.858
Indonesia	13,380.881	13,540.499
Singapore	1.381	1.336
Japan	112.175	112.574

U.S. dollar exchange rates as at and for the calendar year ended 31 December 2018:

	Profit and Loss	Balance Sheet
Thailand	32.319	32.360
Philippines	52.691	52.500
Indonesia	14,234.242	14,410.480
Singapore	1.349	1.362
Japan	110.434	109.913

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

PRESENTATION OF FINANCIAL INFORMATION

The Issuer's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2018 included in this Offering Circular have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The International Accounting Standards Board ("**IASB**") issued IFRS 17 in May 2017, which will significantly change the presentation and measurement of insurance contracts, including the calculation of reserves and the impact of reinsurance. The effective date of the standard is 1 January 2021, but the IASB has tentatively decided to defer the effective date to 1 January 2022.

TABLE OF CONTENTS

THE OFFERING

The following is a brief summary of the terms of the offering of the New Notes. For a more complete description of the terms of the New Notes, see "Terms and Conditions of the Notes" in the Original Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Notes" in the Original Offering Circular.

Issuer	FWD Group Limited
Notes Offered	U.S.$250,000,000 5.75 per cent. Subordinated Notes due 2024 (the "**New Notes**") to be consolidated and form a single series with the U.S.$550,000,000 5.75 per cent. Subordinated Notes due 2024 issued on 9 July 2019
Issue Price	101.07 per cent. of the principal amount plus accrued interest from, and including, 9 July 2019 to, but excluding, the Issue Date
Issue Date	23 July 2019
Maturity Date	9 July 2024
Interest Payment Dates	9 January and 9 July in each year, commencing on 9 January 2020.
Interest	The New Notes will bear interest from, and including, 9 July 2019 at the rate of 5.75 per cent. per annum, until the Maturity Date, payable semi-annually in arrear on 9 January and 9 July in each year.
Status and Subordination of the New Notes	The New Notes constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference or priority of payment among themselves and with any Parity Obligations (as defined in Condition 2(a) (*Status of the Notes*)) of the Issuer. In the event of the Winding-Up (as defined in Condition 2(b) (*Ranking of claims in respect of the Notes*)) of the Issuer, the rights and claims of the Holders in respect of the Notes shall rank ahead of those persons whose claims are in respect of any Junior Obligations (as defined in Condition 2(b) (*Ranking of claims in respect of the Notes*)) of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of holders of Parity Obligations of the Issuer.
Set-off	See "*The Offering—Set-off* " in the Original Offering Circular.
Events of Default	See "*The Offering—Events of Default*" in the Original Offering Circular.
Offering	The New Notes are being offered only outside the United States in reliance on Regulation S. The New Notes have not been registered and will not be registered under the Securities Act and, subject to certain exemptions, may not be offered or sold in the United States.
Cross Acceleration	See "*The Offering—Cross Acceleration*" in the Original Offering Circular.
Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and sale. See "*Subscription and Sale*".
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 9 July 2024.
Redemption for Tax Reasons	See "*The Offering—Redemption for Tax Reasons*" in the Original Offering Circular.

Redemption upon Change of Control	See "*The Offering—Redemption upon Change of Control*" in the Original Offering Circular.
Redemption upon an initial public offering	See "*The Offering—Redemption upon an initial public offering*" in the Original Offering Circular.
Further Issues	See "*The Offering—Further Issues*" in the Original Offering Circular.
Governing Law	See "*The Offering—Governing Law*" in the Original Offering Circular.
Form and Denomination	See "*The Offering—Form and Denomination*" in the Original Offering Circular.
Clearing Systems	The New Notes will be represented by beneficial interests in the Global Note Certificate in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the New Notes will not be issued in exchange for interests in the Global Note Certificate.
ISIN	XS2022434364
Common Code	202243436
Legal Entity Identifier	254900DONRZV54KDYN04
Listing	Application has been made to the SEHK for the listing of, and permission to deal in, the New Notes by way of debt issues to Professional Investors only, and such permission is expected to become effective on 24 July 2019.
Fiscal Agent	The Hongkong and Shanghai Banking Corporation Limited
Paying and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar	The Hongkong and Shanghai Banking Corporation Limited
Use of Proceeds	See "*Use of Proceeds*" in this Supplemental Offering Circular.

USE OF PROCEEDS

The net proceeds from the offering of the New Notes, after deducting underwriting commission and expenses, are estimated to be approximately U.S.$252,000,000. The Issuer intends to use the net proceeds for the Issuer's general corporate purposes, including but not limited to, potential transactions and servicing and/or repayment of the Issuer's own indebtedness, including the New Notes.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Issuer's consolidated capitalisation and indebtedness as of 31 December 2018 on an actual basis and as adjusted to give effect to (i) the sale of the Original Notes in this offering, with estimated net proceeds of approximately U.S.$545,750,000, (ii) the sale of the New Notes in this offering, with estimated net proceeds of approximately U.S.$252,000,000, (iii) the aggregate U.S.$140 million investment into the Group in the form of perpetual convertible preference securities on 13 March 2019, and (iv) the U.S.$175 million increase in bank credit facilities by the Issuer entering into a new three-year bank facility in the second quarter of 2019 to partially finance the acquisition of PT Commonwealth Life in Indonesia. This table should be read in conjunction with the audited consolidated financial statements and the notes thereto appearing elsewhere in this Offering Circular.

	As of 31 December 2018	
	Actual	*Adjusted*
	(U.S.$ thousands)	
Borrowings:		
Bank credit facilities	270,761	445,761
Original Notes issued[1]	—	550,000
New Notes to be issued	—	250,000
Total debt	270,761	1,245,761
Equity:		
Issued capital	297	303
Share premium	1,666,314	1,812,287
Direct capital instrument	538,927	538,927
Capital redemption reserve	990	990
Share-based payment reserve	24,523	24,523
Legal reserve	4,091	4,091
Cash flow hedge reserve	(1,756)	(1,756)
Available-for-sale financial assets revaluation reserve	103,522	103,522
Defined benefit obligation revaluation reserve	(4)	(4)
Foreign currency translation reserve	10,460	10,460
Retained earnings/(accumulated losses)	(641,498)	(641,498)
Total shareholders' equity	1,705,866	1,851,845
Non-controlling interests	317	317
Total capitalisation[2]	1,976,944	3,097,923

Notes:

(1) The Issuer has issued the Original Notes on 9 July 2019.

(2) Total capitalisation represents the sum of total debt, non-controlling interests and total shareholders' equity.

Save as indicated above, there has been no other material change in the capitalisation and indebtedness of the Issuer since 31 December 2018.

SUBSCRIPTION AND SALE

The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and UBS AG Hong Kong Branch, incorporated in Switzerland with limited liability have, pursuant to a Subscription Agreement dated 18 July 2019 among the Issuer and the Joint Lead Managers, agreed severally and not jointly with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the New Notes at the Issue Price (101.07 per cent. of their principal amount). Any subsequent offering of the New Notes to investors may be at a price different from the Issue Price. The Issuer has agreed to pay the Joint Lead Managers certain fees and an underwriting commission, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the New Notes and to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the New Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the New Notes.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and any of the Joint Lead Managers or any affiliate of theirs is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by them or such affiliate on behalf of the Issuer in such jurisdiction.

The Joint Lead Managers and certain of their affiliates may purchase the New Notes and be allocated the New Notes for asset management and/or proprietary purposes but not with a view to distribution. The Joint Lead Managers and their respective affiliates may also purchase the New Notes for their own accounts. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity as investment advisers) a broad array of investments and actively traded debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve the New Notes or other securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, may be entered into at the same time in the secondary market and may be carried out with counterparties that are also purchasers, holders or sellers of the New Notes.

Certain private banks will be paid a commission in connection with the distribution of the New Notes to their clients, which will be based on the principal amount of the New Notes so distributed.

OTHER RELATIONSHIPS

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time.

UNITED STATES

The New Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell, any New Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of such Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the New Notes.

In addition, until 40 days after the commencement of the offering of the New Notes, an offer or sale of the New Notes within the United States by any dealer (whether or not participating in the offering of the New Notes) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S.

UNITED KINGDOM

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any New Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any New Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the New Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

SINGAPORE

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered or sold any New Notes or caused the New Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any New Notes or cause the New Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") and the

Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the New Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018).

JAPAN

The New Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "**Financial Instruments and Exchange Act**"), and accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any New Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the New Notes and no such limitation is made hereby. Each Joint Lead manager has represented, warranted and undertaken that the public of the Cayman Islands will not be invited to subscribe for the New Notes.

GENERAL INFORMATION

1. **Clearing Systems**: The New Notes have been accepted for clearance through Euroclear and Clearstream. The securities codes for the New Notes are as follows:

   Common Code: 202243436

   ISIN: XS2022434364

2. **Legal Entity Identifier**: The legal entity identifier of the Issuer is 254900DONRZV54KDYN04.

3. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the New Notes. The issue of the New Notes was authorised by minutes of meeting of the Board of Directors of the Issuer dated 12 July 2019.

4. **Listing of the New Notes**: Application has been made to the SEHK for the listing of, and permission to deal in, the New Notes by way of debt issues to Professional Investors only, and such permission is expected to become effective on or about 24 July 2019.

5. **No Material Adverse Change**: There has been no material adverse change in the financial or trading position or prospects of the Issuer since 31 December 2018.

6. **Litigation**: Except as disclosed in this Offering Circular, the Issuer is not involved in any governmental, legal or arbitration proceeding that is material in the context of the issue of the New Notes, and the Issuer is not aware that any such proceedings are pending or threatened.

7. **Available Documents**: Copies of the latest annual report and the most recently published consolidated financial statements of the Issuer may be obtained free of charge, and copies of the Agency Agreement dated 9 July 2019 in respect of the Original Notes, the Supplemental Agency Agreement (which includes the form of the Global Note Certificate in respect of the New Notes) to be dated on or about the Issue Date in respect of the New Notes, the Deed of Covenant dated 9 July 2019 in respect of the Original Notes and the Deed of Covenant to be dated on or about the Issue Date in respect of the New Notes will be available for inspection at the specified office of The Hongkong and Shanghai Banking Corporation Limited at 30th Floor, HSBC Building, 1 Queen's Road Central, Hong Kong during normal business hours, so long as any of the Notes is outstanding.

8. **Auditor**: The audited consolidated financial statements of the Issuer for the years ended 31 December 2017 and 31 December 2018 have been audited by Ernst & Young, Certified Public Accountants.

ANNEX I

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: This Offering Circular is being sent at your request, and by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the managers, or any affiliate of the managers, is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of us in such jurisdiction.

IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES, INVESTORS MUST BE OUTSIDE THE UNITED STATES AND COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO UBS AG HONG KONG BRANCH, INCORPORATED IN SWITZERLAND WITH LIMITED LIABILITY AND J.P. MORGAN SECURITIES PLC (THE "**JOINT LEAD MANAGERS**") THAT YOU AND ANY CUSTOMER YOU REPRESENT ARE OUTSIDE THE UNITED STATES AND THAT, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT, IN COMPLIANCE WITH REGULATION S.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of FWD Group Limited, the Joint Lead Managers or any person who controls FWD Group Limited, the Joint Lead Managers, or any director, officer, employee or agent of FWD Group Limited or the Joint Lead Managers, nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

FWD GROUP LIMITED

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$550,000,000 5.75 per cent. Subordinated Notes due 2024

Issue Price: 100.00 per cent.

The U.S.$550,000,000 5.75 per cent. Subordinated Notes due 2024 (the "**Notes**") will be issued by FWD Group Limited (the "**Issuer**") and will be direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference or priority of payment among themselves and with any Parity Obligations (as defined in the "*Terms and Conditions of the Notes*") of the Issuer.

Interest on the Notes is payable semi-annually in arrear on 9 January and 9 July in each year, commencing on 9 January 2020. Payments on the Notes will be made without deduction for or on account of taxes of the Cayman Islands and Hong Kong to the extent described under "*Terms and Conditions of the Notes–Taxation*".

The Notes mature on 9 July 2024 at their principal amount but may be redeemed before then, in whole but not in part, at the option of the Issuer, subject to certain provisos, (i) at their principal amount, together with interest accrued to the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting the taxes of the Cayman Islands or Hong Kong (see "*Terms and Conditions of the Notes–Redemption and Purchase–Redemption for tax reasons*"), (ii) at 101 per cent. of the outstanding principal amount of the Notes, together with any interest accrued but unpaid to the date fixed for redemption, if an Initial Public Offering (as defined in the "*Terms and Conditions of the Notes*") has occurred (see "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon an initial public offering*") or (iii) at 101 per cent. of the outstanding principal amount of the Notes, together with any interest accrued but unpaid to the date fixed for redemption, upon the occurrence of a Change of Control (as defined in the "*Terms and Conditions of the Notes*") (see "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon Change of Control*"), on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable). By the 30th day following the occurrence of a Change of Control, if the Issuer does not give an irrevocable notice to redeem the Notes, the Rate of Interest (as defined in the "*Terms and Conditions of the Notes*") will increase to the aggregate of 5.00 per cent. per annum and the Rate of Interest, with effect from (i) the next Interest Payment Date (as defined in the "*Terms and Conditions of the Notes*"); or (ii) if the date on which a Change of Control occurs is prior to the most recent preceding Interest Payment Date, such Interest Payment Date, as set out in "*Terms and Conditions of the Notes – Interest – Increase in Rate of Interest following a Change of Control*".

Application has been made to The Stock Exchange of Hong Kong Limited (the "**SEHK**") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 9 for a description of certain factors to be considered in connection with an investment in the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States. The Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**"). For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes will be represented by beneficial interests in a global certificate (the "**Global Note Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 9 July 2019 (the "**Closing Date**") with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Note Certificate.

Joint Lead Managers and Joint Bookrunners

UBS **J.P. MORGAN**

This Offering Circular is dated 4 July 2019.

IMPORTANT NOTICE

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries (collectively, the "**Group**") and their affiliates taken as a whole, and the Notes, that is material in the context of the issue and offering of the Notes (including all information which, according to the particular nature of the Issuer and the Group, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Group and of the rights attaching to the Notes); (ii) the statements contained in this Offering Circular relating to the Issuer, the Group, their affiliates and the Notes are in all material respects true and accurate and not misleading; (iii) the opinions and intentions relating to the Issuer and the Group expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other material facts relating to the Issuer, the Group, their affiliates and the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular, in light of the circumstances under which it was made, misleading; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons who are in possession of this Offering Circular are required by each of the Issuer, UBS AG Hong Kong Branch, incorporated in Switzerland with limited liability and J.P. Morgan Securities plc (the "**Joint Lead Managers**") and the Agents (as defined in "*Terms and Conditions of the Notes*") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised in connection with the issue, offer or sale of the Notes to give any information or to make any representation concerning the Issuer, the Group and the Notes other than as contained herein, and if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Group, the Joint Lead Managers or the Agents or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably and likely to involve a change in the affairs of the Issuer or the Group, or any of them since the date hereof, or create any implication that the information contained herein is correct as at any date subsequent to the date of such information. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers or the Agents or any of their respective affiliates to subscribe for or purchase any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer in connection with the offering of the Notes solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Circular is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or the Agents or any of their respective affiliates, directors or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Notes, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Agents or any of their respective affiliates. The Joint Lead Managers, the Agents and their respective affiliates have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Group or the issue and offering of the Notes. Each of the Joint Lead Managers, the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise that it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers undertakes to review the financial condition or affairs of the Issuer or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or their respective affiliates.

This Offering Circular is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by the Issuer, the Joint Lead Managers or the Agents that any recipient of this Offering Circular should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular, and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

Any of the Joint Lead Managers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separated from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the Terms and Conditions, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, an investor should consult his or her adviser.

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE JOINT LEAD MANAGER APPOINTED AND ACTING IN ITS CAPACITY AS STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE JOINT LEAD MANAGER) (THE "STABILISING MANAGER") MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Issuer, the Group, the Joint Lead Managers and the Agents and their respective affiliates are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer believes this information to be reliable, it has not been independently verified by the Issuer, the Joint Lead Managers, the Agents or their respective directors, advisers and affiliates, and none of the Issuer, the Joint Lead Managers, the Agents or their respective directors, advisers, affiliates or employees makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants, and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offering of the Notes. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Group*" and elsewhere in this Offering Circular constitute "forward-looking statements". Words such as "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. However, these words are not the exclusive means of identifying forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position and results of operations, business strategy, prospects, capital expenditure and investment plans of the Issuer and the plans and objectives of the Issuer's management for its future operations (including development plans and objectives relating to the Issuer's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or performance of the Issuer to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. These forward-looking statements speak only as of the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's expectations with regard thereto or any change of events, conditions or circumstances on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results, performances or achievements of the Issuer to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

CERTAIN TERMS AND CONVENTIONS

Except as otherwise indicated or required by context, all references in this Offering Circular to the "Group" are to the Issuer and its subsidiaries taken as a whole.

Unless otherwise specified or the context otherwise requires, references to "U.S." or "United States" are to the United States of America, "Thai baht" or "THB" are to the lawful currency of Thailand, "Japanese yen" or "JPY" are to the lawful currency of Japan, "Indonesian rupiah" or "IDR" are to the lawful currency of Indonesia, "Philippine peso" or "PHP" are to the lawful currency of the Philippines, "Singapore dollars" or "SGD" are to the lawful currency of Singapore, and "U.S. dollars" or "U.S.$" are to the lawful currency of the United States.

This Offering Circular contains translations of certain foreign currency amounts into U.S. dollars, and vice versa, at specific rates solely for the convenience of the reader shown in the table below. No representation is made that the foreign currency amounts or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars, or foreign currencies at any particular rate or at all. Exchange rates used in this Offering Circular for profit and loss items are an average of exchange rates prevailing for the relevant years indicated. Exchange rates for balance sheet items are the spot rate as at the relevant dates.

U.S. dollar exchange rates as at and for the calendar year ended 31 December 2017:

	Profit and Loss	Balance Sheet
Thailand	33.934	32.620
Philippines	50.403	49.858
Indonesia	13,380.881	13,540.499
Singapore	1.381	1.336
Japan	112.175	112.574

U.S. dollar exchange rates as at and for the calendar year ended 31 December 2018:

	Profit and Loss	Balance Sheet
Thailand	32.319	32.360
Philippines	52.691	52.500
Indonesia	14,234.242	14,410.480
Singapore	1.349	1.362
Japan	110.434	109.913

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

PRESENTATION OF FINANCIAL INFORMATION

The Issuer's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2018 included in this Offering Circular have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The International Accounting Standards Board ("IASB") issued IFRS 17 in May 2017, which will significantly change the presentation and measurement of insurance contracts, including the calculation of reserves and the impact of reinsurance. The effective date of the standard is 1 January 2021, but the IASB has tentatively decided to defer the effective date to 1 January 2022.

TABLE OF CONTENTS

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the meaning when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

OVERVIEW

The Group comprises life insurance and employee benefits businesses in Thailand, Japan, the Philippines, Indonesia and Singapore, as well as general insurance business in Singapore, including the 5th largest life insurance company in Thailand on a weighted new business premium basis as of 31 December 2018 (according to the Thai Life Assurance Association (TLAA) statistics). The Thai and Japanese businesses have operated for over 20 years and the Singapore business has operated for 13 years; the Indonesia and Philippines businesses have each operated for over four years. The Group believes it has a strong reputation in each market for delivering innovative products and superior customer service. The Group also benefits from the experience of the Issuer's major shareholders, Richard Li and Swiss Re.

On 30 June 2016, its Hong Kong affiliate, FWD Life Insurance Company (Bermuda) Limited, acquired a 100 per cent. interest in Great Eastern (Life) Co. Ltd (Vietnam) in Vietnam ("**FWD Vietnam**") for a total consideration of U.S.$35.9 million. Subject to regulatory approval, FWD Life Insurance Company (Bermuda) Limited intends to transfer FWD Vietnam in the second half of 2019 to the Group as part of a corporate restructuring exercise. The transfer amount paid to FWD Life Insurance Company (Bermuda) Limited will be equivalent to the investment cost.

On 23 October 2018, the Group announced that it had agreed to acquire up to 100 per cent. of PT Commonwealth Life, Commonwealth Bank of Australia's ("**CBA**") life insurance business in Indonesia. As part of the agreement, the Group will enter into a 15-year life insurance distribution partnership with PT Bank Commonwealth, CBA's Indonesian banking business. The transaction is subject to regulatory approvals and the Group plans to merge the business with its existing business in Indonesia after the transaction is approved and completed.

As of 31 December 2018, the Group had total assets of U.S.$14,778.4 million and total equity of U.S.$1,706.2 million. For the years ended 31 December 2017 and 31 December 2018, the Group had losses after income tax expenses of U.S.$162.1 million and U.S.$163.2 million, respectively.

The Group's operating companies all sell life insurance products, as defined by applicable regulations; in Singapore, the Group has a composite licence which allows it to sell both life and general insurance products. The Group's insurance subsidiaries produced VNB of U.S.$261.1 million and U.S.$510.3 million for the years ended 31 December 2017 and 31 December 2018, respectively. For the years ended 31 December 2017 and 31 December 2018, the VNB of FWD Thailand was U.S.$112.0 million and U.S.$71.0 million, respectively, representing VNB margins of 55.9 per cent. and 38.0 per cent., respectively. FWD Fuji Life produced VNB of U.S.$128.9 million for the period 1 May 2017 to 31 December 2017 and produced VNB of U.S.$409.0 million for the year ended 31 December 2018, representing VNB margins of 93.0 per cent and 111.2 per cent, respectively. For the years ended 31 December 2017 and 31 December 2018, the VNB of FWD Philippines was U.S.$13.9 million and U.S.$22.2 million, respectively, representing VNB margins of 54.0 per cent. and 57.6 per cent., respectively. For the years ended 31 December 2017 and 31 December 2018, the VNB of FWD Indonesia was U.S.$6.0 million and U.S.$5.1 million, respectively, representing VNB margins of 23.4 per cent. and 20.8 per cent., respectively.

The Group's focus on value creation is evidenced by the strong growth in VNB in recent years, as over the three years ended 31 December 2018, the CAGR of the Group's VNB was 92.5 per cent. The Group strives to maintain a well-balanced distribution platform, including agency, bancassurance, brokerage, retail and direct channels. For the year ended 31 December 2018, the agency, bancassurance, brokerage, retail and direct channels represented 8.1 per cent., 24.6 per cent., 58.7 per cent., 2.1 per cent., and 3.4 per cent., respectively, of the Group's APE.

RECENT DEVELOPMENTS

The SCB Transaction

On 1 July 2019, FWD Group Financial Services Pte. Ltd., a wholly-owned subsidiary of the Group entered into a binding share sale agreement with Siam Commercial Bank Public Company Limited ("**SCB**"), regarding the sale of SCB's entire stake in SCB Life Assurance Public Company Limited ("**SCB Life**"), and upon completion of the transaction will enter into a distribution agreement to establish a long-term bancassurance partnership with SCB (collectively, the "**SCB Transaction**").

Under this arrangement, SCB will distribute FWD's life insurance products to SCB's customers in Thailand, leveraging SCB's distribution channels for a period of 15 years. FWD will pay a total consideration of THB92.7bn, along with additional payments common in bancassurance transactions over the course of the partnership. The transaction is expected to be completed in the latter part of 2019 subject to certain conditions, such as obtaining regulatory approvals and approval by SCB's shareholders.

For more information on the risks related to the SCB Transaction, see "*Risk Factors—The Group may not be able to successfully complete the SCB Transaction.*", "*Risk Factors—The Group may not realise the expected benefits of the SCB Transaction*" and "*Description of the Group*".

THE GROUP'S COMPETITIVE STRENGTHS

The Group believes that it benefits from the following key competitive strengths:

- Balanced multi-channel distribution;
- Diversified product portfolio to meet customer needs;
- Focus on customer experience and customer service;
- Rapid growth and geographic expansion;
- Stable and prudent financial profile;
- Strong shareholder base; and
- Experienced management team.

THE GROUP'S STRATEGY

The Group seeks to implement the following key business strategies to capitalise on future growth opportunities:

- Focus on value creation;
- Technology driven multi-channel distribution;
- Create a differentiated brand through "customer-led" products and services; and
- Maintain financial discipline.

SUMMARY FINANCIAL AND OTHER INFORMATION

The summary financial information for the Issuer set forth below has been extracted from the Issuer's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018. These results should be read in conjunction with such audited consolidated financial statements and the notes thereto.

There is no pro forma financial data in this Offering Circular that takes into consideration the potential impact of the SCB Transaction. Further, as the completion of the SCB Transaction remains subject to uncertainty around completion of the conditions precedent, historical financial data relating to the SCB Transaction has not been included in this Offering Circular.

In addition, the Group's historical financial data presented in this Offering Circular is not indicative of what the Group's financial results would have been had such historical financial data included the impacts of the SCB Transaction. Accordingly, the historical financial data presented in this Offering Circular is not necessarily indicative of the Group's future results of operations, financial condition and cash flows, and investors may have difficulty assessing its prospects based on such financial data in this Offering Circular should the SCB Transaction be completed.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2017	Year ended 31 December 2018
	(U.S.$ in thousands)	
	(audited)	(audited)
REVENUE		
Gross premiums	1,981,252	3,174,276
Reinsurers' share of gross premiums	(145,048)	(464,610)
Change in unearned premiums	2,069	(2,681)
Net premiums	1,838,273	2,706,985
Fees and commission income	72,824	257,882
Net deferred commission income movement	(53,372)	(207,103)
Investment return	182,843	127,703
Other operating revenue	9,643	13,967
TOTAL REVENUE	2,050,211	2,899,434
BENEFITS, CLAIMS AND EXPENSES		
Net benefits and claims	(1,676,452)	(2,333,026)
Amortisation of intangible assets	(37,130)	(38,332)
Net Deferred Acquisition Cost ("DAC") movement	286,798	565,831
Finance costs	(10,862)	(10,357)
Commission and commission related expenses	(365,914)	(709,542)
Other operating and administrative expenses	(398,174)	(576,793)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(2,201,734)	(3,102,219)
SHARE OF GAINS/(LOSSES) IN ASSOCIATE AND JOINT VENTURE	1,614	2,083
PROFIT/(LOSS) BEFORE TAX	(149,909)	(200,702)
Income tax expense	(12,240)	37,478
PROFIT/(LOSS) FOR THE YEAR	(162,149)	(163,224)
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of foreign operations	42,741	2,541
Re-measurement of defined benefit obligation	924	106
Change in fair value of available-for-sale financial assets	86,748	(93,600)
Reclassification adjustments for gains included in profit or loss of available-for-sale financial assets	(15,964)	5,491
Change in fair value of cash flow hedges	14,217	1,177
Impairment losses	—	954
Income tax impact	(14,417)	16,584
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	114,249	(66,747)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(47,900)	(229,971)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Shareholders	(46,761)	(229,384)
Non-controlling interests	(1,139)	(587)
	(47,900)	(229,971)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December 2017	As of 31 December 2018
	(U.S.$ in thousands)	
	(audited)	(audited)
ASSETS		
Goodwill	53,953	30,113
Intangible assets	826,393	848,265
Deferred acquisition cost	544,719	1,112,199
Plant and equipment	27,188	40,132
Investment Property	—	305,788
Financial assets:		
Available-for-sale financial assets	8,595,869	9,462,267
Financial assets at fair value through profit or loss	263,503	426,930
Loans and receivables	501,557	571,878
Derivative financial instruments	2,691	28,297
Reinsurance assets	136,799	415,823
Investment in associate and joint venture	49,299	47,990
Prepayments, deposits and other assets	204,473	259,986
Deferred tax assets	96	8,812
Insurance receivables	297,355	332,650
Due from related parties	97,484	158,697
Cash and cash equivalents	650,996	728,532
TOTAL ASSETS	12,252,375	14,778,359
LIABILITIES		
Insurance contract liabilities	9,675,996	11,747,488
Pension benefit obligations	6,637	7,406
Due to related parties	21,397	33,141
Deferred acquisition cost—Reinsurer's share	53,214	262,181
Financial liabilities:		
Borrowings	248,825	270,761
Derivative financial instruments	11,126	12,522
Deferred tax liabilities	103,267	34,319
Insurance and other liabilities	511,991	704,358
TOTAL LIABILITIES	10,632,453	13,072,176
EQUITY		
Issued capital	286	297
Share premium	1,360,863	1,666,314
Direct capital instrument	539,123	538,927
Capital redemption reserve	990	990
Share-based payment reserve	13,557	24,523
Legal reserve	2,981	4,091
Cash flow hedge reserve	(2,698)	(1,756)
Available-for-sale financial assets revaluation reserve	174,022	103,522
Defined benefit obligation revaluation reserve	(274)	(4)
Foreign currency translation reserve	7,931	10,460
Retained earnings[(1)] (accumulated losses)	(477,763)	(641,498)
TOTAL SHAREHOLDERS' EQUITY	1,619,018	1,705,866
Non-controlling interests	904	317
TOTAL LIABILITIES AND EQUITY	12,252,375	14,778,359

KEY OPERATING DATA[1][3]

	As of and for the year ended 31 December	
	2017	2018
	U.S.$ million	U.S.$ million
Group APE	398.1	625.8
Group VNB margin (per cent.)	65.6	81.5
Group GWP	1,981.3	3,174.3
Solvency ratio[2]		
FWD Thailand (per cent.)	284	241
FWD Philippines (per cent.)	1,297	203
FWD Indonesia (per cent.)	346	298
FWD Singapore (per cent.)	639	372
FWD Fuji Life (per cent.)	824	1,043
FWD Reinsurance (per cent.)	3,405	2,338

Notes:

(1) Non-GAAP financial measures

(2) Calculated as the ratio of local available capital to minimum local required capital.

(3) Group APE, Group VNB Margin (per cent.) and Group GWP are for the period from 1 May to 31 December 2017 for FWD Fuji Life reflecting the acquisition date of 30 April 2017.

THE OFFERING

The following is a brief summary of the terms of the offering of the Notes. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Notes".

Issuer . . . . FWD Group Limited

Notes Offered . . . . U.S.$550,000,000 5.75 per cent. Subordinated Notes due 2024

Issue Price . . . . 100.00 per cent. of the principal amount

Issue Date . . . . 9 July 2019

Maturity Date . . . . 9 July 2024

Interest Payment Dates . . . . 9 January and 9 July in each year, commencing on 9 January 2020.

Interest . . . . The Notes will bear interest from, and including, the Issue Date at the rate of 5.75 per cent. per annum, until the Maturity Date, payable semi-annually in arrear on 9 January and 9 July in each year.

Status and Subordination of the Notes . . . . The Notes constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference or priority of payment among themselves and with any Parity Obligations (as defined in Condition 2(a) (*Status of the Notes*)) of the Issuer.

In the event of the Winding-Up (as defined in Condition 2(b) (*Ranking of claims in respect of the Notes*)) of the Issuer, the rights and claims of the Holders in respect of the Notes shall rank ahead of those persons whose claims are in respect of any Junior Obligations (as defined in Condition 2(b) (*Ranking of claims in respect of the Notes*)) of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of holders of Parity Obligations of the Issuer.

Set-off . . . . Each Holder shall, by virtue of his holding of any Notes, be deemed to have waived all rights of set-off, deduction, withholding or retention against the Issuer. Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes.

Events of Default . . . . Upon the occurrence of certain events as described in Condition 9 (*Events of Default*) of the Terms and Conditions of the Notes, upon notice in writing addressed to the Issuer and delivered to the Issuer or to the Specified Office (as defined in the Agency Agreement referred to in the Terms and Conditions of the Notes) of the Fiscal Agent, any Noteholder may declare its Notes immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

Offering . . . . The Notes are being offered only outside the United States in reliance on Regulation S. The Notes have not been registered and will not be registered under the Securities Act and, subject to certain exemptions, may not be offered or sold in the United States.

Cross Acceleration . . . . The Notes will contain a cross acceleration provision as further described in Condition 9(d) (*Cross-acceleration of Issuer or Subsidiary*) of the Terms and Conditions of the Notes.

Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and sale. See "*Subscription and Sale*".
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 9 July 2024.
Redemption for Tax Reasons	The Issuer may redeem the Notes in whole but not in part, at their principal amount, together with interest accrued to, but excluding the date fixed for, redemption, in the event of certain changes in the Cayman Islands or Hong Kong taxation, as further described in Condition 6(b) (*Redemption for tax reasons*) of the Terms and Conditions of the Notes.
Redemption upon Change of Control	The Issuer may redeem the Notes in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable), the Registrar and the Fiscal Agent upon the occurrence of a Change of Control at 101 per cent. of their principal amount, together with any interest accrued but unpaid to the date fixed for redemption, as further described in Condition 6(c) of the Terms and Conditions of the Notes.
Redemption upon an initial public offering	The Issuer may redeem the Notes in whole but not in part, at 101 per cent. of their principal amount, together with interest accrued to, but excluding the date fixed for, redemption, if an Initial Public Offering has occurred, as further described in Condition 6(d) (*Redemption upon an initial public offering*) of the Terms and Conditions of the Notes.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.
Governing Law	The Notes, and all non-contractual obligations arising out of or in connection with them are governed by, and construed in accordance with, English law, except that the subordination provisions set out in Condition 2 (*Status and Subordination of the Notes*) shall be governed by, and construed in accordance with, Cayman law.
Form and Denomination	The Notes will be issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Clearing Systems	The Notes will be represented by beneficial interests in the Global Note Certificate in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Note Certificate.
ISIN	XS2022434364
Common Code	202243436
Legal Entity Identifier	254900DONRZV54KDYN04

Listing	Application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only, and such permission is expected to become effective on 10 July 2019.
Fiscal Agent	The Hongkong and Shanghai Banking Corporation Limited
Paying and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar	The Hongkong and Shanghai Banking Corporation Limited
Use of Proceeds	See "*Use of Proceeds*".

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including but not limited to the risks and uncertainties described below. The Group's business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. Additional risks and uncertainties not presently known to the Group or which the Group currently deems immaterial may arise or become material in the future and may have a material adverse effect on the Group, including on the ability of the Issuer to fulfil its obligations under the Securities.

The Group believes that the following factors may affect its ability to fulfil its obligations under the Securities. In addition, factors that are material for the purpose of assessing the market risks associated with the Securities are also described below. These factors are contingencies that may or may not occur, and the Group is not in a position to express a view on the likelihood of any such contingency occurring. The information below is given as of the date of this Offering Circular and will not be updated after the date hereof, and is subject to the reservations in the section headed "Forward-Looking Statements" in this Offering Circular.

RISKS RELATING TO THE GROUP'S BUSINESS

Political instability, market fluctuations and general economic conditions impact the Group's business.

The Group's business is inherently subject to political instability, market fluctuations and general economic conditions. Difficult macroeconomic conditions could reduce demand for the Group's products and services, reduce the returns from, or give rise to defaults or losses in, the Group's investment portfolio, and otherwise have a material adverse effect on the Group's business, financial condition and results of operations.

Global financial markets have experienced, and continue to experience, uncertainty brought on by various political events such as Brexit and monetary policies among the world's major economies, which may prompt a new round of volatility in capital flows. The U.S. has raised its federal funds rate and there is uncertainty as to the pace of future interest rates, which would have a material impact on global borrowing costs. There are also ongoing concerns over European sovereign debt, economic growth and investor confidence in the Eurozone, the United States and Asia Pacific, the possible consequences of quantitative easing programmes by central banks, regional and geopolitical instability in the Middle East, Eastern Europe, Asia Pacific and other parts of the world, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments. In addition, there are fears of global trade wars as a result of the announcement of tariffs and other protectionist policies by a number of key economies, including the United States. Upheaval in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. Any sustained volatility in the global financial markets is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on the Group's business, financial condition and results of operations. Moreover, any economic instability or downturn in the global economy may have a negative impact on the insurance sector and in turn a material adverse effect on the Group's business, financial condition and results of operations.

In particular, the Group is subject to the general economic conditions in the key markets in which it operates as set forth below.

Japan: The Group's operations in Japan constitute a significant portion of its overall business. In Japan the monetary easing measures implemented by the Bank of Japan aimed at overcoming deflation and the Japanese government's fiscal and economic measures to stimulate the economy have improved corporate and consumer sentiment as well as economic conditions. However, the uncertainty of the outcome of these policies have led to continued volatility in both stock prices and foreign exchange rate movements during 2017 and 2018.

The outlook of the Japanese economy remains uncertain. Particular concerns include whether the Japanese economy will succeed in ending deflation, the potential negative consequences of an increasing budget deficit, the uncertain effects of the introduction by the Bank of Japan of negative interest rates, and whether the volatility of the yen could further hurt consumer sentiment and weaken demand. If economic conditions deteriorate, the demand for the Group's insurance products could be adversely affected and its surrender and lapse rates for individual insurance products could increase.

Thailand: FWD Thailand's business and operations are subject to the changing economic and political conditions prevailing from time to time in Thailand. In the past, the Thai government has frequently intervened in the Thai economy and occasionally made significant changes in economic policies. The Group's business, liquidity, financial condition and results of operations may be affected, directly or indirectly, by changes in such policies, which relate to, among other things, inflation, interest rates, wages, changes in import tariffs, exchange control measures, tax policies and other matters. The Group's business, cash flows, financial condition, results of operations and prospects may be adversely affected by change in government policies.

Recent political instability has also added to the uncertainty regarding the Thai economy. On 13 October 2016, Thailand's King Bhumibol Adulyadej, the world's longest-serving monarch, passed away at age 88. Crown Prince Maha Vajiralongkorn then acceded to the throne as the new monarch to succeed the late King Bhumibol. There has also been significant uncertainty surrounding the Thai government and House of Representatives, with the fallout of the 2019 elections (the first since the 2014 military government was installed in Thailand) continuing to develop. There can be no assurance that any developments in the elected Thai government's policies or in Thailand's political environment will not have a material adverse effect on the Group's business, cash flows, financial condition, results of operations and prospects. In particular, if the SCB Transaction is successfully completed, the scale of the Group's operations in Thailand will expand significantly, and any political uncertainty and/or instability could have an amplified effect on the Group's business, financial condition and results of operations.

The Group may need additional capital in the future and its leverage profile may change significantly.

To the extent the Group's existing sources of capital are not sufficient to satisfy its needs, it may have to seek external sources. The Group's ability to obtain additional capital from external sources in the future is subject to a variety of uncertainties, including the Group's future financial condition, results of operations and cash flows, regulatory considerations, general market conditions for capital raising activities and economic, political and other conditions in South East Asia, Japan and elsewhere.

Future debt financing, if it can be obtained, could include terms that restrict the Group's financial flexibility or restrict its ability to manage its business freely, which may adversely affect the Group's business and results of operations.

In addition, the Group has committed to and may in the future enter into agreements in relation to future acquisitions, including but not limited to the SCB Transaction, which may be funded through a mix of debt and equity funding by the Group. In the event that the amount of debt drawn to fund such acquisitions is significant, this could result in a significant change to the leverage profile of the Group and financing costs, which could impact the Group's financial position and results of operations. This impact to the financial position and results, coupled with a senior ranking of the additional debt relative to the subordinated nature of the Notes, could also have a negative impact on the trading price of the Notes.

New business activities and significant acquisitions present risks to the Group's business.

As part of its overall strategy, the Group may acquire certain businesses, assets and technologies, as well as develop new products, new geographic markets and distribution channels that are complementary to its business. The Group may experience difficulties integrating any investments, acquisitions, distribution arrangements and/or partnerships into its existing business and operations or identifying successful initiatives in the future.

The introduction and development of such new areas of business and/or new products or services and/or new geographical markets may not be completed in accordance with the expected timetables, and the pricing and profitability targets may not prove accurate or feasible. There can be no assurance that new products or channels will be as successful as intended, or at all. Furthermore, expansion into any new areas of business, any new distribution channel and/or new geographic markets could have a material adverse effect on the effectiveness of the Group's internal control system to the extent the Group fails to effectively adapt its internal controls to such new businesses or distribution channels. Any such difficulty could have a material adverse effect on the Group's business, financial condition and results of operations.

Entry into new markets may also bring the Group into competition with multinational firms against which the Group has limited experience.

The Group's acquisitions, divestments and other corporate transactions may not complete, divert management attention and other resources or otherwise impact the Group's business.

Since the formation of the Group, it has completed significant acquisitions in Thailand, Singapore and Japan. In addition, the Group has announced an acquisition in Indonesia and has announced the SCB Transaction (see "*Summary—Recent Developments*") and may undertake future acquisitions or other corporate transactions in the future. Further, the Group may need to obtain additional debt or equity financing to implement these acquisition opportunities. Additional debt financing may increase the Group's interest expense, leverage and gearing, as well as potentially require the Group to dedicate a substantial portion of its cash flow from operations to debt payments. Any inability to secure such additional debt or equity financing may in turn adversely affect the Group's business, financial position or regulatory solvency ratios. Growth by acquisition involves risks that could adversely affect the Group's operating results, including the substantial amount of management time and other resources that may be diverted from operations to pursue and complete acquisitions, risks of undisclosed liabilities and integration or separation issues. In addition, the Group may take advantage of commercial or strategic opportunities to divest or dispose of its various businesses on commercially attractive terms, or be required by regulatory changes or rulings to divest or dispose of its business in a certain jurisdiction, whether as a condition to a potential acquisition of a competitor by the Group in the same jurisdiction or otherwise. The Group may not be able to complete such divestments or disposals readily or at all and a divestment or disposal resulting from a regulatory change or ruling may materially impact the Group's business. Any planned acquisition or divestment may also fail to complete for a number of reasons, including failure to obtain shareholder approvals, issues uncovered as part of due diligence and/or objections raised by regulators.

Moreover, the integration of any future acquisition may not be successful or in line with the Group's expectations and any acquired business may fail to achieve, in the near or long term, the financial results projected or the strategic objectives of the relevant acquisition, and once acquired, may continue to divert further management attention and resources or necessitate changes in Group strategy. The inability to realise expected benefits from such transactions, and any unforeseen costs of integration may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to successfully complete the SCB Transaction.

The SCB Transaction is subject to certain conditions, such as obtaining regulatory approvals and approval by SCB's shareholders, and there can be no assurance that the Group will be able to successfully complete the SCB Transaction. Some of the conditions precedent to completion of the SCB Transaction are outside of the control of the Group.

Any delay or failure in completing the SCB Transaction may cause the Group to experience a setback in its strategy and intentions to grow and develop its business and operations by expanding further in the Thailand life insurance market. In particular, given the scale and significance of the SCB Transaction, any failure to complete the SCB Transaction may have a material impact on the Group's strategy in Thailand as well its future growth prospects. For details of the SCB Transaction, see "*Business—Recent Developments*."

The Group may not realise the expected benefits of the SCB Transaction.

The Group is committed to long term investment in life insurance in the Thai market, and the SCB Transaction is part of its focus on value creation which involves, amongst others, expanding its Thailand business and operations through wider distribution and sales.

If the SCB Transaction successfully completes, the Group expects to have SCB and its life insurance subsidiary, SCB Life, as part of the Group's strategy to expand its Asian footprint by building up and strengthening its Thailand platform.

However, if the anticipated benefits of the SCB Transaction are not realised, the Group's business, financial condition, results of operations, performance and prospects may be adversely affected. Given its scale and significance of the SCB Transaction, any failure to achieve anticipated benefits and synergies will have a significant impact on the Group's overall business, financial condition and results of operations.

Changes in taxation have and may further materially and adversely affect demand for the Group's insurance products.

There are specific rules governing the taxation of policyholders and the tax treatment of insurance premiums paid by policyholders in each jurisdiction where the Group has operations. The Group is unable to predict accurately the impact of future changes in tax law on the taxation of life insurance policies in the hands of policyholders and tax treatment of insurance premiums paid by policyholders. Amendments to existing legislation, particularly if there is the withdrawal of any tax relief, or an increase in tax rates, or the introduction of new rules, may affect the future long-term business and the decisions of policyholders. The impact of such changes upon the Group might depend on the mix of business in-force at the time of such change.

In particular, recent changes announced by the National Tax Agency of Japan in 2019 with respect to the tax deductibility of insurance premiums paid on Corporate Owned Life Insurance ("**COLI**") products (which were previously fully-deductible) have had, and may continue to have, a significant impact on sales of such products by FWD Fuji Life in Japan. Though the Group has taken a number of measures to mitigate the effects of such changes to the Group's business, financial condition and results of operations (See "*Description of the Group—*

Japan"), the near-term impact of such measures may be difficult to quantify and there can be no assurance that such measures will be effective or sufficient in mitigating any adverse effects to the Group's business, financial condition and results of operations.

The design of life insurance products by the Group's life insurance businesses takes into account a number of factors, including risks and taxation. The design of long-term insurance products is based on the tax legislation in force at that time. Changes in tax legislation or in the interpretation of tax legislation may therefore, when applied to such products, have a material adverse effect on the financial condition and operating results of the Group.

Changes in interest rates may materially and adversely affect the Group's profitability and its regulatory solvency ratios.

The Group's profitability is affected by changes in interest rates and market fluctuations. Japan and Thailand, the jurisdictions to which the Group has the most exposure through its fixed income investments, continue to experience a period of low interest rates. If interest rates increase in the future, surrenders and withdrawals of insurance policies and contracts may increase as policyholders seek other investments with higher perceived returns. This process may result in cash outflows and may require the Group to sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realised capital losses. Conversely, if interest rates remain at low levels or decline, the income that the Group realises from its investments may decline, affecting the Group's profitability. In addition, as instruments in the investment portfolio mature, the Group may have to reinvest the funds it receives in investments bearing lower returns.

In this regard, the persistent low interest rate environment in Japan is a particular concern. The Bank of Japan introduced a negative interest rate policy in 2016, applying a rate of negative 0.1 per cent. to certain excess reserves held by financial institutions at the Bank of Japan, which has suppressed interest rates since its implementation. If this policy is maintained over the foreseeable future and results in continued lower interest rates on the Group's investments, the Group's average yield on investments could be adversely affected.

For some of its long-term life insurance policies, the Group is obligated to pay a minimum interest or crediting rate to its policyholders, which is established when the product is priced. These products expose the Group to the risk that changes in interest rates may reduce the Group's spread, or the difference between the rates the Group is required to pay under the policies and the rate of return the Group is able to earn on its investments supporting its insurance obligations. If the rates of return on its investments fall below the minimum rates the Group guarantees under those insurance products, the Group's business, financial condition and results of operations could be materially and adversely affected.

In addition, in order to reduce its exposure to changes in interest rates, the Group seeks to match the duration of its assets and related liabilities. However, the availability of assets of suitable duration or alternatives in the form of derivative instruments may be restricted by applicable insurance laws, rules and regulations or other market factors. If the Group is unable to closely match the duration of its assets and liabilities, the Group will be exposed to interest rate changes, which may materially and adversely affect its business, financial condition and results of operations.

Fluctuations in currency exchange rates may adversely affect the Group's financial condition and results of operations.

The Group is exposed to foreign currency exchange risk arising from fluctuations of exchange rates of the currencies in the jurisdictions where the Group operates. The Group's most significant foreign currency exposure is to the Thai baht and the Japanese yen. The Group does not currently hedge either its revenues or its net equity position in any of its operating subsidiaries. The Group reviews its hedging strategy from time to time and may change its hedging policy in the future. The effect of exchange rate fluctuations on local operating results could lead to significant fluctuations in the Group's consolidated financial statements upon translation of the results into U.S. dollars.

The Group is exposed to illiquidity risk for certain of its investments.

There may not be a liquid trading market for certain of the Group's investments, such as accreting deposit investments. The liquidity of trading markets and investments is affected by numerous factors, including the existence of suitable buyers and market makers, market sentiment and volatility, the availability and cost of credit and general economic, political and social conditions.

If the Group were required to dispose of potentially illiquid assets on short notice (e.g. to meet policyholder obligations), it could be forced to sell such assets at prices significantly lower than the prices recorded in the Issuer's consolidated financial statements.

The Group's risk management and internal control systems may be inadequate or ineffective in identifying or mitigating the various risks to which it is exposed.

The Group has established risk management and internal control systems consisting of organisational frameworks, policies, procedures and risk management methods that the Group believes are appropriate for its business operations, and the Group seeks to continue to improve these systems. However, due to the inherent limitations in the design and implementation of risk management and internal control systems, including identification and evaluation of risks, internal control variables and the communication of information, there is no assurance that such systems will be able to identify, mitigate and manage all exposures to risks.

The Group's risk management methods have inherent limitations, as they are generally based on statistical analysis of historical data as well as the assumption that future risks will share similar characteristics with past risks. There is no assurance that such assumptions are an accurate prediction of future events. As the Group's business has experienced a rapid expansion in recent periods, its information technology system may not be adequate for the collection, analysis and processing of data or may not have enough capacity to handle the corresponding expansion in information. Moreover, the Group's historical data and experience may not adequately reflect risks that may emerge from time to time in the future. As a result, the Group's risk management methods and techniques may not be effective in alerting the Group to take timely and appropriate measures to manage its risks.

The Group's risk management and internal controls also depend on the proficiency of and implementation by the Group's employees. There is no assurance that such implementation will not involve any human error or mistakes, which may materially and adversely affect the Group's business, financial condition and results of operations.

The Group is subject to the credit risk of its counterparties, including the issuers or borrowers whose securities or loans it holds and its trade debtors.

The Group has monetary and securities claims under numerous transactions against reinsurers, brokers, other debtors and third parties. These parties include the issuers whose securities are held by the Group, borrowers under loans made, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Issuers or borrowers whose securities are held by or who have entered into loans with the Group may not fulfil their obligations to pay scheduled interest or principal payments on such securities or loans, while third-party trade debtors may not pay amounts outstanding in respect of accounts receivables of the Group. Failure to recover such amounts or governmental action involving these obligations may have a material adverse effect on the Group's business, financial condition and results of operations.

A reduction or perceived reduction in the Group's reputation or financial strength could result in a loss of business and adversely affect the Group's results of operations.

Policyholders' and other counterparties' confidence in the financial strength of an insurance company, as well as in the financial services industry generally, is an important factor affecting the Group's business. Any actual or perceived reduction in the Group's financial strength, a significant reduction in the solvency ratio of one or more of the Group's operating companies or some other factor, could have a material adverse effect on the Group's business, financial condition and results of operations. These effects could include, among others, increased policy surrenders, an adverse impact on new sales, increased pricing pressure on the Group's products and services, increased borrowing costs and loss of support from distributors and counterparties such as reinsurers, which could all materially and adversely affect the Group's business, financial condition and results of operations.

The Group faces the risk of a continued loss-making business.

The Group had recorded losses after income tax expenses of U.S.$162.1 million and U.S.$163.2 million for the years ended 31 December 2017 and 31 December 2018, respectively. The Group's future success will depend on its ability to build scale, particularly in its newer businesses, which will enable these businesses to become profitable. However, there can be no assurance that the Group's businesses will successfully achieve scale, which may have a material adverse effect on the financial condition and operating results of the Group.

Demand for insurance and investment products may change as a result of shifts in customer preferences and changes in regulation, and the Group may not respond appropriately or in time to sustain the Group's business or its market share.

The insurance and investment product markets are constantly evolving in response to shifts in the preferences of customers and changes in regulation, and the Group must respond to these changes to remain competitive, grow the Group's businesses and maintain market share. The Group also faces certain risks when introducing new products, and the Group's new products may fail to achieve market acceptance, which could have a material adverse impact on the Group's business, financial condition and results of operations.

The Group's future success will depend on its ability to adapt to changing customer preferences, regulations and industry standards and to respond with new product offerings and services. Any such change in customer preferences, regulations or industry standards may require the Group to re-evaluate its business model and to adopt significant changes to its strategies and business plan. Inability to adapt to these changes could have a material adverse effect on the Group's business, financial condition and results of operations.

Changes in taxation may materially and adversely affect the Group's business, financial condition and results of operations.

The Group operates in several different tax jurisdictions and faces risks associated with changes in tax law, interpretation of tax law, changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge or financial penalty.

If, as a result of a particular tax risk materialising, the tax costs associated with certain transactions are greater than anticipated, it could affect the profitability of those transactions.

Inability to attract and retain talented professionals may adversely impact the Group's business, financial condition and results of operations.

The success of the Group's business is dependent on its ability to attract and retain key personnel who have in-depth knowledge and understanding of the insurance markets in which it operates. There is no assurance that the Group will be able to attract and retain qualified personnel or that the Group's senior management or other key personnel will not retire or otherwise leave the Group at any time.

The Group is also dependent on the sound underwriting, product development, risk control, business development and actuarial expertise of the Group's senior management and other key employees. The competition for qualified technical, sales and managerial personnel in the insurance sector in South East Asia and Japan is intense. The Group's continuing success will depend on the Group's ability to retain and hire suitably qualified and experienced management and key employees, and the loss of their service could have a material adverse effect on the Group's business, financial condition and results of operations.

Actual experience may differ from assumptions used in establishing reserves and in product pricing, which may adversely impact the Group's business, financial condition and results of operations.

The Group establishes balance sheet liabilities and sets aside reserves to reflect future expected policyholder benefits and claims. The Group establishes these reserves and prices its products based on many assumptions and estimates, including mortality and morbidity rates, policyholder behaviour, expected premiums, investment returns, policy persistency, benefits to be paid, expenses to be incurred, as well as macroeconomic factors such as interest rates and inflation.

Due to the nature of the underlying risks and uncertainty associated with the determination of the liabilities for unpaid benefits and claims, these amounts may vary from the estimated amounts. If significant deviations in actual experience from the assumptions occur, the Group may be forced to incur additional expenses in the form of claims and payments, to the extent the actual amounts exceed the estimated amounts, or the Group may be required to increase its reserves for future policy benefits, resulting in additional expenses in the period during which the reserves are established or re-estimated, which could materially and adversely affect the Group's business, financial condition and results of operations.

The Group periodically evaluates its reserves, net of deferred acquisition costs and value of business acquired ("VOBA"), based on updates to the assumptions and estimates used to establish these reserves as well as its actual policy benefits and claims experience. A liability adequacy test is performed at least annually. If the net reserves initially established for future policy benefits prove insufficient, the Group must increase its net reserves, which may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is dependent on its continuing ability to recruit, motivate and retain suitable agents and distribution partners to distribute its products.

The Group faces competition to attract and retain agency leaders and individual agents. The Group competes with other companies for the services of agents on the basis of its reputation, product range, compensation and retirement benefits, training, support services and financial position. Further, access to the bancassurance and brokerage distribution channels is subject to similar competition. In addition, the Group's arrangements with such distribution partners may not be on an exclusive basis, with products and services of the Group being distributed along with its competitors. Any adverse movement in any of these factors could inhibit the Group's ability to attract and retain adequate numbers of qualified agents and adversely impact its ability to maintain the effectiveness of such distribution channels and develop relationships with other distribution partners.

Increasing competition for experienced individual insurance agents from insurance companies and other business institutions may also force the Group to increase the compensation of its agents, which would increase operating costs and reduce the Group's profitability. Furthermore, there is no assurance that the Group will be able to maintain these relationships at an acceptable cost or at all. To the extent the Group is not able to maintain its existing distribution relationships or secure new distribution relationships, the Group may not be able to maintain or increase its new business premiums, which may materially and adversely affect the Group's business, financial condition and results of operations.

Agent, employee and distribution partner misconduct could harm the Group's reputation or lead to regulatory sanctions or litigation against the Group.

Agent, employee or distribution partner misconduct could result in violations of law, regulatory sanctions, litigation or serious reputational or financial harm. Such misconduct could include misrepresenting the features or limits of the Group's products, recommending products not suitable for particular consumers, misappropriation of client funds and other fraudulent behaviour.

The measures that the Group has taken to detect and deter misconduct by the Group's agents, employees and distribution partners may not be effective in all circumstances. There is no assurance that any such misconduct would not have a material adverse effect on its business, financial condition and results of operations.

The termination of, or any adverse changes to, the Group's arrangements with its bancassurance partners may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition to its agency channel, the Group relies on distribution arrangements with banks in South East Asia for sales of the Group's bancassurance products through their respective networks. With respect to FWD Thailand, the bancassurance channel, through the Group's exclusive partnership with TMB Bank, is the largest contributor to the Group's APE and VNB in Thailand. There is no assurance that these arrangements will be renewed on acceptable terms, or at all or that such arrangements will not be terminated. In particular, TMB Bank announced on 28 February 2019 that it had signed a non-binding agreement to merge with Thanachart Bank Public Company Limited, which has an existing partnership to develop bancassurance business in Thailand with a subsidiary of Prudential plc. Following such merger, there can be no assurance that the existing partnership between FWD Thailand and TMB will remain in place or be subject to review or amendment. Regulatory changes with respect to the bancassurance business and distribution of bancassurance products may also materially and adversely affect the Group's relationships and arrangements with these banks or restrict the Group's ability to expand further its bancassurance arrangements with such banks or limit and/or constrain the ability of the banks and the Group to sell insurance products through bank branches.

The termination of, disruption to, or any other adverse change to, the Group's relationships with the banks with which the Group has distribution arrangements (including as a result of changes in ownership or strategy at such relationship banks), or the formation of any exclusive partnerships between these banks and any of the Group's competitors could significantly reduce sales of the Group's products and the Group's growth opportunities. Banks' demand for higher commissions or changes to bancassurance pricing could increase the Group's costs in connection with the sale of the Group's products and adversely affect the profitability of the Group's products. Any of these developments could have a material adverse effect on the Group's business, financial condition and results of operations.

Catastrophic events could materially and adversely affect the Group's business, financial condition and results of operations.

The threat of epidemics, international tensions in many parts of the world, terrorism, ongoing and future military and other actions, heightened security measures in response to these threats, natural disasters (including tsunamis and earthquakes), climate change or other catastrophes may cause disruptions to commerce, reduced economic activity and market volatility. The Group's life, general and medical insurance businesses expose it to claims arising out of such events, in particular to the risk of catastrophic mortality or morbidity, such as an epidemic or other events that cause a large number of claims and/or increase in reserves and capital requirements.

In accordance with IFRS, the Issuer does not establish reserves for catastrophes in advance of their occurrence, and the loss or losses from a single catastrophe or multiple catastrophes could materially and adversely affect its business, financial condition and results of operations. Although the Group carries reinsurance to reduce the Group's catastrophe loss exposures, due to limitations in the relevant terms of its reinsurance contracts and the underwriting capacity limits in the reinsurance market, as well as difficulties in assessing the Group's exposures to catastrophes, this reinsurance may not be sufficient to protect the Group adequately against loss.

The Group faces the risk of litigation, regulatory investigations and other proceedings in relation to its business.

A substantial liability arising from a lawsuit judgement or a significant regulatory action against the Group or a disruption in the Group's business arising from adverse adjudications in proceedings against the Group's directors, officers or employees could have a material adverse effect on the Group's business, financial condition and results of operations. Moreover, even if the Group ultimately prevails in the litigation, regulatory action or investigation, such proceedings could significantly harm its reputation, which could materially affect its business, financial condition and results of operations. See "*—A reduction or perceived reduction in the Group's reputation or financial strength could result in a loss of business and adversely affect the Group's results of operations*".

The Group's financial condition and results of operations could be adversely affected if the Group is unable to successfully manage its growth.

The Group's future growth may place significant demands on the Group's managerial, operational and capital resources. The expansion of the Group's business activities exposes the Group to various challenges, including, but not limited to:

- continuing to expand, train and retain its agency force, while maintaining costs and productivity at optimal levels;
- continuing to expand the Group's bancassurance and brokerage networks to meet expanding distribution needs;
- continuing to develop adequate underwriting and claims settlement capabilities and skills;
- recruiting, training and retaining management personnel with proper experience and knowledge; and
- strengthening and expanding the Group's risk management and information technology systems to effectively manage the risks associated with existing and new lines of insurance products and services and increased marketing and sales activities.

There is no assurance that the Group will manage its growth successfully. In particular, the Group may not be able to recruit, train and retain a sufficient number of qualified personnel to keep pace with the growth of the Group's business.

The Group may be unable to utilise reinsurance successfully.

The Group's ability to obtain external reinsurance on a timely basis and at a reasonable cost is subject to a number of factors, many of which are beyond its control. In particular, certain risks that the Group is subject to, such as epidemics, are difficult to reinsure. If the Group is unable to renew any expiring external reinsurance coverage or to obtain acceptable new external reinsurance coverage, its net risk exposure could increase or, if the Group is unwilling to bear an increase in net risk exposure, the amount of risk the Group is able to underwrite and the breadth of its product offerings could decrease. To the extent that the Group is unable to utilise external reinsurance successfully, its business, financial condition and results of operations may be materially and adversely affected.

The Group is also exposed to credit risk with respect to reinsurers in all lines of its insurance business. In particular, since reinsurance does not discharge the Group's primary liability to its policyholders, a default by one or more of the Group's reinsurers under its reinsurance arrangements would increase the financial losses arising out of a risk the Group has insured, which would reduce the Group's profitability and may have a material adverse effect on the Group's liquidity position. If the Group's reinsurers fail to pay it on a timely basis, or at all, the Group's business, financial condition and results of operations may be materially and adversely affected.

A failure in the Group's information technology systems may materially and adversely affect its operations.

The Group's business is reliant on the ability of its information technology systems to process a large number of transactions on a timely basis. Further, because of the long-term nature of much of the Group's business, accurate records must be maintained for significant periods of time. The proper functioning of the Group's financial controls, accounting, customer database, customer service and other data processing systems, including those relating to underwriting and claims processing functions, is critical to the Group's operations and to the Group's ability to compete effectively. Although the Group maintains disaster recovery facilities designed to be activated in place of primary facilities in the event of failure, there is no assurance that the Group's business activities would not be materially disrupted in the event of a partial or complete failure of any of these or other information technology systems. A failure of the Group's information technology or communications systems could damage the Group's reputation and have a material adverse effect on the Group's business, financial condition and results of operations.

Cyber-attacks or other security breaches of the Group's computer systems or computer systems maintained by others could damage the Group's reputation, lead to regulatory sanctions and legal claims or a loss of customers and revenue.

The Group maintains confidential and proprietary information on its computer systems and relies on sophisticated technologies to maintain the security of that information. The Group's computer systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorised access, cyber-attacks or other computer-related penetrations. While, to date, the Group has not experienced a material breach of cyber security, administrative and technical controls and other preventative actions it takes to reduce the risk of cyber-incidents and protect the Group's information technology may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to its computer systems. Any such breaches could cause significant interruptions in the Group's operations, and the failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to its customers, could harm the Group's reputation, subject the Group to regulatory sanctions and legal claims, lead to a loss of customers and revenue and otherwise adversely affect the Group's business, financial condition or results of operations.

In addition, the Group's business could be harmed indirectly by cyber-attacks or security breaches to computer systems maintained by others. There can be no assurance that cyber-attacks or security breaches to computer systems maintained by others could not have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's value of new business ("VNB") calculations are based on a number of assumptions and may vary significantly as those assumptions change.

The Group has included in this Offering Circular estimates of VNB of its life businesses. The calculation of these values necessarily includes numerous assumptions with respect to, among other things, industry performance, general business and economic conditions, investment returns, reserving standards, regulatory requirements with regards to solvency ratios and policyholder bonuses, taxation, life expectancy and other matters, many of which are beyond the Group's control. Specifically, the Group makes certain assumptions regarding, among other things, risk discount rates, investment yields, mortality rates, morbidity rates, lapse rates, expense assumptions, commissions, policy dividends and tax rates, which have not been independently reviewed by any external actuarial consultant. As these assumptions are forward-looking, actual future experience may differ materially from those assumed in the calculations.

System errors or regulatory changes may affect the calculation of unit prices or deduction of charges for investment linked products which may require the Group to compensate customers retrospectively.

A material portion of the Group's product sales are investment linked contracts, where product benefits are linked to the prices of the underlying unit funds. While comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the methodology is subsequently challenged by policyholders or regulators and changed retrospectively. Any of these can give rise to compensation payments to customers. Controls are in place to mitigate these risks, but errors could give rise to future liabilities. Payments due to errors or compensation may negatively affect the Group's profitability or financial condition.

The Issuer's largest shareholder is able to exercise influence over the Group.

As of the date of this Offering Circular, the Issuer's two major owners, Richard Li and Swiss Re Investments Company Limited ("**Swiss Re**"), owned approximately 75.4 per cent. and 13.4 per cent., respectively, of the Issuer's issued share capital. The rights of Richard Li and Swiss Re as beneficial owners of the Issuer are governed by an Investment and Shareholders' Agreement (Parallel Structure) dated 16 October 2013, as amended and restated on 31 July 2018 (the "**Shareholders' Agreement**"). Richard Li is not a member of the Board of Directors of any of the businesses within the Group or of the Issuer. Pursuant to the Shareholders' Agreement, Richard Li has the right to appoint up to eight members of the Board of Directors of the Issuer (including the Chairman of the Board), an observer of the Board of Directors of the Issuer and the Chief Executive Officer of the Issuer. Swiss Re may appoint up to two directors and one observer of the Board of Directors of the Issuer, subject to the approval of Richard Li. The Board of Directors operates and manages the businesses within the Group independently, subject to the provisions of the Shareholders' Agreement, pursuant to which certain matters require the consent of and/or notifications to the shareholders. Additionally, both Richard Li and Swiss Re, subject to certain exceptions, have pre-emption rights in respect of raising any future equity capital. See "*Description of the Group—Shareholders*".

RISKS RELATING TO THE GROUP'S INDUSTRY AND GEOGRAPHIC FOCUS

The Group faces significant competition.

The Group faces significant competition in each of its markets. South East Asian life insurance markets, in particular, are dominated by a relatively small number of large insurers, some of which have greater financial resources and/or economies of scale than the Group. The market share of the five largest insurance companies operating in the South East Asian life insurance markets typically exceeds 60 per cent. Further concentration of the markets in which the Group operates may adversely affect the Group's business, financial condition and results of operations.

In Japan, the Group faces intense competition in the Japanese life insurance market from both domestic and foreign-owned life insurance companies and from large domestic financial service providers that either have their own insurance subsidiaries or enter into co-operative arrangements with major insurance companies. Competition has increased in the Japanese life insurance market in recent years due to industry deregulation, targeting of the bancassurance channel by competitors, an overall decline in demand for insurance products with death benefits and increased competition from foreign-owned insurance companies, among other factors.

The Group also faces competition from banks and other financial institutions that directly own insurance companies and from smaller insurance companies that may develop strong positions in various market segments in which the Group operates. The Group's ability to compete is driven by a number of factors, including premiums charged and other terms and conditions of coverage, product features, investment performance, services provided, distribution capabilities, scale, experience, commission structure, brand strength and name recognition, information technology and actual or perceived financial strength. Such competition could have a material adverse effect on the Group's business, financial condition and results of operations.

Compliance with solvency ratio and capital requirements may force the Group to raise additional capital, change its business strategy or reduce its growth, which could increase the Group's financing costs.

Insurance companies are required by applicable law to maintain their solvency ratios at a level in excess of statutory minimum standards. The solvency ratio of each of the Group's insurance businesses is affected primarily by the volumes and types of new insurance policies sold, by the composition of the in-force insurance policies and investments and by regulations on the determination of statutory reserves in each jurisdiction. The solvency ratio of each business is also affected by a number of other factors, including the profit margin of its products, returns on its assets and investments, interest rates, underwriting and acquisition costs, and policyholder and shareholder dividends.

In order to comply with applicable solvency ratio and capital requirements in each jurisdiction, the Group may need to raise or inject additional capital to meet its solvency ratio and capital requirements. The Group may also need to change its business strategy, including the types of products it sells and its capital management. Finally, compliance with solvency ratio and capital requirements may require the Group to slow the growth of its business, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's businesses are highly regulated and changes to regulation of its businesses or failure to comply with such regulations may adversely affect its business, financial condition and results of operations.

The Group is subject to laws, rules and regulations across all aspects of its business. Some of the laws, rules and regulations to which the Group is subject are relatively new (including laws and regulations relating to data privacy), and their interpretation and application remain uncertain. See "*Description of the Group*".

Failure to comply with any applicable laws, rules and regulations and international prudential frameworks, including as a result of changes to rules and regulations or the changing interpretation thereof by relevant regulators, could result in fines, suspension of the Group's business licences or, in extreme cases, business licence revocation, each of which would have a material adverse effect on the Group's business, financial condition and results of operations.

The adoption of OECD's Common Reporting Standard could have an impact on the Group's businesses, financial condition, results of operations and growth prospects.

The Organisation for Economic Co-operation and Development (the "**OECD**") has developed a draft common reporting standard ("**CRS**") and model competent authority agreement to enable the multilateral, automatic exchange of financial account information. The CRS does not include a potential withholding element. Under the CRS financial institutions (including certain specified insurance companies) will be required to identify and report the tax residence status of customers in 105 countries that have endorsed the plans, of which 100 (including European Union Member States) have committed to implement the CRS with first information exchanges expected in 2018. The remaining 5 countries have committed to implement the CRS on a slower timetable with first information exchanges for these countries expected in 2020.

Japan, Indonesia and Singapore have undertaken to send its first CRS report in 2018 and it is expected that CRS will be adopted in Thailand by 2022. Financial institutions in Japan, Indonesia and Singapore have begun collecting tax residency information from their account holders as early as 1 January 2017 and may submit information on reportable account holders in 2019 for reporting year 2018. The increased due diligence of customer information and the reporting of information to the tax authorities may increase operational and compliance costs for the Group, depending on its scope of application. At this time, it is not possible to quantify the full costs of complying with the new legislation as some aspects are still to be determined.

Concentrated surrenders may materially and adversely affect the Group's business, financial condition and results of operations.

Under normal circumstances, it is generally possible for insurance companies to estimate the overall amount of surrenders in a given period. However, the occurrence of emergency or macroeconomic events that have significant impact, such as sharp declines in customer income due to a severe deterioration in economic conditions, radical changes in relevant government policies, loss of customer confidence in the insurance industry due to the weakening of the financial strength of one or more insurance companies, or the severe weakening of the Group's financial strength, may trigger massive surrenders of insurance policies. If this were to occur, the Group would have to dispose of the Group's investment assets, possibly at unfavourable prices, in order to make the significant amount of surrender payments. This could materially and adversely affect the Group's business, financial condition and results of operations.

Demographic trends in Japan may adversely affect FWD Fuji Life's business.

Since the mid-1970s, Japan's total fertility rate had generally been on a long-term decline. Since 2005, this trend has reversed but the modest recovery in the total fertility rate is slowing down. As a result of the declining birthrate over the long term, the number of people aged between 15 and 64 declined by 10.9 per cent. from 86.3 million in 2000 to 76.9 million in 2015. This age group is considered to be the country's potential workforce population and covers in any given year most of FWD Fuji Life's customers purchasing insurance products. Total life insurance policy amounts in force for all life insurance companies in Japan declined by 4.1 per cent. from ¥1,436 trillion as of 31 March 2009 to ¥1,377 trillion as of 31 March 2018, according to the Life Insurance Association of Japan, and FWD Fuji Life believes the above demographic trend was one of the primary contributing factors to this decline in policy amount in force. The National Institute of Population and Social Security Research projects that the number of people aged between 15 and 64 will decrease from 79.0 million in 2013 to an estimated 69 million in 2030 and will continue to decline for decades thereafter. If these trends continue and lead to reduced demand for life insurance products, the scale of FWD Fuji Life's life insurance business in Japan may diminish and FWD Fuji Life's financial condition and results of operations may be materially and adversely affected.

The Group and the Group's operating subsidiaries are subject to extensive regulations as an insurance companies, including monitoring and inspection of their financial soundness.

The primary purpose of the insurance law and related regulations is to protect policyholders, not debt holders or shareholders. Insurance laws and regulations place restrictions on the types of businesses that the Group and the Group's operating subsidiaries may engage in, impose limits on the types of investments that they may make and require them to maintain specified reserves and minimum solvency margin ratios. Since November 2018, the Group's overall insurance business is subject to regulation by The Insurance Authority appointed under the Hong Kong Insurance Company Ordinance ("HKICO"), currently the Commissioner of Insurance (the "Insurance Authority"). Furthermore, the Group and the Group's operating subsidiaries are subject to extensive oversight and comprehensive regulation by the relevant regulators in each of its countries of operation. Collectively, these regulators oversee the Group's relevant operations in each of the insurance markets in which it operates and, as a result of such broad oversight, the Group is occasionally subject to overlapping, conflicting or expanding regulation across jurisdictions.

For instance, each country's insurance laws and regulations typically give the relevant regulator broad regulatory powers over the Group and the Group's operating subsidiaries' business, including the authority to revoke operating licences, suspend operations, request information and conduct rigorous on-site inspections of books and records. In addition, the Group and the Group's operating subsidiaries need to receive prior authorisation from their respective regulators for the sale of new insurance products and changes or key changes in the terms of their products.

New solvency standards may affect the Group's capital position.

The International Association of Insurance Supervisors, or the IAIS, which is the global standard-setter for the insurance industry, is in process of developing a risk-based capital ("**RBC**") framework which takes into account different risk factors when assessing the capital adequacy of an insurer. In 2011, the IAIS issued the new Insurance Core Principles which place more emphasis on risk-based supervision on both quantitative and qualitative aspects. All member supervisors around the world are obliged to observe the new Principles. Additional requirements that may be proposed in the future, such as the Insurance Capital Standard, or the ICS, currently developed by the IAIS as part of its Common Framework for the Supervision of Internationally Active Insurance Groups, could result in significant changes to the current solvency margin regulations, and restrictions included in any such new regulations could result in new limitations on the Group's business or investment activities. On 31 July 2018, the IAIS issued the Risk-based Global Insurance Capital Standard Version 2.0 ("**ICS 2.0**"), a public consultation document to solicit feedback from stakeholders on the ICS ahead of the completion of ICS 2.0, scheduled for late-2019 and before the monitoring period begins on 1 January 2020.

To align with the international standards, Hong Kong plans to move to a RBC regime from the current rules-based regime. The new framework will comprise three pillars (Pillar 1: quantitative requirements; Pillar 2: qualitative requirements; and Pillar 3: disclosure and transparency requirements) and will be introduced on a phased basis, with the next step being the development of detailed rules by the Insurance Authority. Quantitative Impact Studies ("**QIS**") were conducted in 2017 and 2018, and a third QIS is expected to be conducted in 2019. The new capital requirements are targeted to be implemented in 2022. Thus far no concrete proposals for quantitative capital requirements have been put forward. Also, in 2018, the Insurance Authority released a draft Guideline on Enterprise Risk Management for consultation. After receiving comments, the Guideline was revised and re-released for a second consultation in January 2019. The final Guideline is expected to be published in 2019 with an effective date of 1 January 2020. The proposed Guideline is similar to those in other jurisdictions and the Group does not expect it to have a significant impact on its business.

Elsewhere in the Group, Thailand is actively considering changes to risk-based capital standards by the end of 2019 that would increase the sufficiency level from 95 per cent. to 99.5 per cent., and would also change risk charge levels and components. It is likely that any change would be implemented gradually over a 5-year period. The Philippines introduced a new risk-based capital framework on 1 January 2017 which changed or introduced asset risk charges and underwriting risk charges. The sufficiency level will also increase from 95 per cent. in 2017 to 99.5 per cent. by the end of 2019. The Group does not expect such changes to have a material adverse impact on the Group over the next five years (whether through additional capital requirements or otherwise). Singapore plans to implement Risk Based Capital 2 (RBC 2) on 1 January 2020 with higher asset risk charges (particularly for equities as well as long duration bonds) and operational risk charges which will have a growth-based component. Indonesia currently has no plans for further changes to its risk-based capital standards. Any such changes or future proposed changes could result in new limitations on the Group's business or investment activities. In Japan, the Financial Services Agency (the "**FSA**") may adopt new regulations that are generally consistent with the calculation methods being examined by the IAIS and launched its field tests of an economic capital solvency regime in June 2010. The new regulations, which would introduce a solvency regime based on economic capital, are expected to be significantly different from the current regulations.

The Group has not yet determined the impact of the new regulations, if any, on its business as a whole in the long term, although it is possible that it could affect the profitability of its products or amount of capital required. In order to comply with applicable capital requirements, or future changes to these requirements, the Group may need to raise or inject additional capital to meet the Group's capital requirements, which may impact the profit return of the Group's shareholders. The Group may also need to change the Group's business strategy, including the types of products it sells and how the Group manages its capital. Furthermore, compliance with capital requirements may require the Group to slow the growth of its business. In addition, failure in making such adjustments to comply with capital requirements may affect the Group's reputation or financial strength which could in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

The failure of other life insurance companies could require the Group's operating entities to increase their contributions to industry-wide policyholder protection funds and could undermine consumer confidence.

In Japan, FWD Fuji Life, along with other life insurers, is required to support policyholders of failed life insurance companies through payments to the Life Insurance Policyholders Protection Corporation of Japan, or the LIPPC. The LIPPC provides funds upon acceptance and assumption by a successor life insurance company of the insurance policies of a failed life insurance company and also performs certain other specified functions. The proportion of required contributions allocated to FWD Fuji Life could increase if its income from insurance premiums and policy reserves increase relative to other life insurance companies in Japan. In the event of future failures of Japanese life insurance companies or if the legal requirements for contributing to the LIPPC change, FWD Fuji Life may be required to make additional contributions to the LIPPC and its financial condition and results of operations could be adversely affected. Singapore and Thailand currently have similar funds that all insurers are required to contribute to. Although Indonesia has not established a policyholder protection fund, the Non-bank Financial Institutions Supervisory Division of the Financial Services Authority (the "Otoritas Jasa Keuangan", or the "OJK") has produced a draft paper on establishment of such a fund and is currently in discussion with the industry on this topic. The Philippines has not currently established such a fund but requires each insurer to establish reserves of approximately U.S.$5 million of government bonds in case of failures in the insurance industry.

The failure of other life insurance companies could also damage the reputation of the life insurance industry and undermine consumer confidence in life insurers in general, which could lead to a decrease in the relevant Group operating subsidiaries' sales of new policies or an increase in lapses or surrenders of existing policies.

RISKS RELATING TO FINANCIAL INFORMATION

IFRS 17 could have a material adverse effect on the reporting of the Group's financial results.

The International Accounting Standards Board, which develops International Financial Reporting Standards, or IFRS, issued IFRS 17 in May 2017, with an effective date of 1 January 2021 which has been tentatively delayed to 1 January 2022. IFRS 17 will significantly change the presentation and measurement of insurance contracts, including the calculation of reserves and the impact of reinsurance. It is uncertain how IFRS 17 will affect the Group's financial results, but it may have an adverse effect on the manner in which the Group reports insurance provisions and, therefore, identifies and report revenues, costs and earnings. The changes could have a material adverse effect on the Group's financial performance and condition. The International Accounting Standards Board may also make amendments to IFRS 17 which could have a material adverse effect on the Group's financial performance and condition.

RISKS RELATING TO THE NOTES

The Issuer is dependent upon its subsidiaries to cover operating expenses and to fulfil its obligations under the Notes.

The Group's life insurance, general insurance, and employee benefits businesses are conducted through its operating subsidiaries. As a holding company, the Issuer conducts no significant business operations, and its principal sources of funds are dividend and distribution remittances from these subsidiaries and any amounts that may be raised through the issuance of equity, debt and commercial paper. The Issuer's ability to meet its debt obligations is dependent upon the flow of funds from these subsidiaries.

Certain of the Group's operating subsidiaries may not be permitted to pay dividends to the Issuer without first obtaining written consent from the relevant regulator, or the relevant regulator may require such subsidiary to achieve certain regulatory solvency ratios before it approves payment of dividends. These solvency ratios may be higher than the solvency ratios of these businesses from time to time.

There can be no assurance that the Issuer's subsidiaries will maintain sufficient regulatory solvency ratios or generate sufficient earnings and cash flows to upstream dividends. Any factor that prevents the payment of dividends to the Issuer by any of the businesses within the Group may have an adverse effect on the Issuer's ability to fulfil its obligations under the Notes.

The Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased by a potential investor as a way to diversify risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes.

On 7 July 2017, the FI(R)O came into operation. The FI(R)O provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions as designated by the relevant regulatory authorities, which may include the Issuer. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, subject to certain safeguards, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the Holders thereof may suffer a loss of some or all of their investment as a result. All Holders of Notes will be subject to and bound by the FI(R)O.

The Notes are subordinated obligations.

The obligations of the Issuer under the Notes will constitute unsecured and subordinated obligations of the Issuer. Subject to the insolvency laws of the Cayman Islands and other applicable laws, in the event of the Winding-Up (as defined in the Terms and Conditions) of the Issuer, the rights of the Holders to receive payments in respect of the Notes will rank senior only to the claims of holders of Junior Obligations (as defined in the Terms and Conditions) of the Issuer and pari passu with the holders of all Parity Obligations (as defined in the Terms and Conditions) of the Issuer, but junior to the claims of all other present and future senior and subordinated creditors of the Issuer.

In the event of a shortfall of funds or a Winding-Up, there is a real risk that an investor in the Notes will lose all or some of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Notes.

The Issuer may raise other capital which affects the price of the Notes.

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Notes. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders of the Notes on a Winding-Up of the Issuer, and may increase the likelihood of a cancellation of Distribution under the Notes. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Notes and/or the ability of Holders to sell their Notes.

An active trading market for the Notes may not develop.

The Notes are a new issue of securities for which there is currently no trading market. Application has been made to the SEHK for the Notes to be admitted for trading on the SEHK. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their Notes or the price at which Holders will be able to sell their Notes. Liquidity of the Notes will be adversely affected if the Notes are held or allocated to limited investors. None of the Joint Lead Managers is obliged to make a market in the Notes, and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act, and as a result, Holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Issuer's revenue, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, changes in government regulations and changes in general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

The value of the Notes may be adversely affected by movement in market interest rates.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect their value.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the SEHK, which standards may be different from those applicable to companies in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Notes to be listed on the SEHK. The disclosure and corporate governance standards imposed by the SEHK may differ from those imposed by securities exchanges in other countries or regions such as the United States or the United Kingdom. As a result, the level of information that is available may not correspond to the level to which investors in the Securities are accustomed.

The Notes will be structurally subordinated to subsidiary debt.

The Notes will be structurally subordinated to the claims of all holders of debt securities and other creditors, including trade creditors, of the Issuer's subsidiaries, and to all secured creditors of the Issuer. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of the Issuer, creditors of such subsidiary generally will have the right to be paid in full before any distribution is made to the Issuer. In the jurisdictions in which the Group operates, the laws and regulations applicable to insurance companies contain provisions whereby policyholders are given priority over the claims of other creditors.

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Noteholders could be adversely affected by a change in English law or administrative practise.

The Terms and Conditions of the Notes are based on English law in effect as of the date of this Offering Circular. No assurance is given as to the impact of any possible judicial decision or change to English law or administrative practise after the date of this Offering Circular, and any such change could have a material adverse impact on the value of the Notes.

Noteholders may be exposed to movements in exchange rates that may adversely affect the value of their holding.

If an investor holds Notes that are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of the investor's holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes. The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to United States dollars would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of another jurisdiction with which the Holders of the Notes are familiar.

As the Issuer is incorporated under the laws of the Cayman Islands, any insolvency proceedings relating to the Issuer, even if brought in other jurisdictions, would likely involve Cayman Island insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Holders of the Notes are familiar.

If the Issuer is unable to comply with the restrictions and covenants in its debt agreements, there could be a default under the terms of these agreements and/or Notes that could cause repayment of the debt to be accelerated.

If the Issuer is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements and/or the Notes. In the event of such default, the holders of the debt could terminate their commitments to lend to the Issuer, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements and/or the Notes, as the case may be.

Furthermore, some of the Issuer's debt agreements contain, and/or may in the future contain, cross-acceleration or cross-default provisions. As a result, the Issuer's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's other debt agreements. If any of these events occurs, there is no assurance that the Issuer's assets and cash flows would be sufficient to repay in full all of its indebtedness, or that the Issuer would be able to find alternative financing. Even if the Issuer could obtain alternative financing, there is no assurance that it would be on terms that are favourable or acceptable to it.

The Notes will be represented by a Global Note Certificate, and holders of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems.

The Notes will be represented by beneficial interests in a Global Note Certificate. Such Global Note Certificate will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream (the "**Clearing Systems**"). Except in the circumstances described in the Global Note Certificate, investors will not be entitled to receive individual Note certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by the Global Note Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems to receive payments under the Notes. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing Systems to appoint appropriate proxies.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

There is limited publicly available information about the Issuer.

The Issuer is an exempted company incorporated under the laws of the Cayman Islands and its shares are not traded publicly. Therefore, there may be less publicly available information about the Issuer than if it were a publicly listed company or incorporated in other jurisdictions.

TERMS AND CONDITIONS OF THE NOTES

The following other than the words in italics is the text of the terms and conditions of the Notes which will appear on the reverse of each of the definitive certificates evidencing the Notes.

The U.S.$550,000,000 5.75 per cent. subordinated notes due 2024 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of FWD Group Limited (the "**Issuer**") are constituted by a deed of covenant dated 9 July 2019 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of a fiscal agency agreement dated 9 July 2019 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agent named therein (the "**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and The Hongkong and Shanghai Banking Corporation Limited as calculation agent (the "**Calculation Agent**", which expression includes any successor or additional calculation agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agent, the Paying Agents and the Calculation Agent and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions (the "**Terms and Conditions**") are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The Holders (as defined in Condition 3(a) (*Register, Title and Transfers—Register*)) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Holders with prior written notice during normal business hours at the principal office for the time being of the Fiscal Agent, being at the date hereof 30th Floor, HSBC Building, 1 Queen's Road Central, Hong Kong and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form and Denomination

The Notes are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

2. Status and Subordination of the Notes

(a) *Status of the Notes*: The Notes constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference or priority of payment among themselves and with any instrument or security (including preference shares) issued, entered into or guaranteed by the Issuer which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Notes including, but not limited to, the preference shares of US$0.01 each issued on 10 December 2013 and the preference shares of US$0.01 each issued on 19 August 2015 of the Issuer ("**Parity Obligations**"). The rights and claims of the Holders in respect of the Notes are subordinated as provided in this Condition 2.

(b) *Ranking of claims in respect of the Notes*: In the event of a final and effective order or resolution by a competent authority in the jurisdiction of the Issuer for the winding up, liquidation or similar proceedings in respect of the Issuer (a "**Winding-Up**"), the rights and claims of the Holders in respect of the Notes shall rank ahead of those persons whose claims are in respect of any of the ordinary shares of the Issuer or any other securities ranking *pari passu* therewith ("**Junior Obligations**") of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of holders of Parity Obligations of the Issuer.

(c) *Set-off-Notes*: Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes, and each Holder shall, by virtue of his holding of any Notes, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

3. **Register, Title and Transfers**

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Fiscal Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

Upon issue, the Notes will be represented by a Global Note Certificate registered in the name of, and deposited with, a nominee of a common depositary for Euroclear and Clearstream. The Terms and Conditions are modified by certain provisions contained in the Global Note Certificate. See "The Global Note Certificate".

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed and signed by the Noteholder or his attorney duly authorised in writing, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor. No transfer of title to a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

Except in the limited circumstances described herein (see "The Global Note Certificate"), owners of interests in the Notes will not be entitled to receive physical delivery of Note Certificates.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar (or as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers of a Note to be registered:

(i) during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes; and

(ii) during the period of 15 calendar days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(b) (*Redemption for tax reasons*), Condition 6(c) (*Redemption upon Change of Control*) or Condition 6(d) (*Redemption upon an initial public offering*).

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Fiscal Agent and the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder and at the Issuer's expense) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Information Undertaking**

So long as any Note remains outstanding, the Issuer shall upload to its public website and provide to the Fiscal Agent to make available to the Holders (A) its audited annual consolidated financial statements within forty five (45) days of the date on which the board of directors of the Issuer approves the financial statements for the end of the fiscal year to which they relate; and (B) its unaudited semi-annual consolidated financial statements within forty five (45) days of the date on which the board of directors of the Issuer approves the unaudited semi-annual consolidated financial statements from the end of the fiscal period to which they relate.

5. **Interest**

(a) *Rate of Interest*: The Notes bear interest from 9 July 2019 (the "**Issue Date**") at the rate of 5.75 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 9 January and 9 July in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgement) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholder under these Conditions).

The amount of interest payable on each Interest Payment Date shall be U.S.$5750 in respect of each Note of U.S.$200,000 denomination and U.S.$28.75 in respect of each Note of U.S.$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means U.S.$1,000; and

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360\text{x}(Y_2 - Y_1)] + [30\text{x}(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30".

(b) *Increase in Rate of Interest following a Change of Control*: Upon the occurrence of a Change of Control (as defined in Condition 6(c) (*Redemption—Redemption upon a Change of Control*)), unless an irrevocable notice to redeem the Notes has been given to Holders by the Issuer pursuant to Condition 6(c) (*Redemption—Redemption upon a Change of Control*) by the 30th day following the occurrence of the Change of Control, the Rate of Interest will increase to the aggregate of 5.00 per cent. per annum and the Rate of Interest, with effect from (i) the next Interest Payment Date; or (ii) if the date on which a Change of Control occurs is prior to the most recent preceding Interest Payment Date, such Interest Payment Date.

6. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled in accordance with the Conditions, the Notes will be redeemed at their principal amount on 9 July 2024 (the "**Maturity Date**"), subject as provided in Condition 7 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 4 July 2019; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent:

(i) a certificate signed by two directors of the Issuer stating that the circumstances referred to in (b)(i) and (b)(ii) above prevail and setting out the details of such circumstances (a "**Certificate**"); and

(ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, provided that the Fiscal Agent may accept such certificate or opinion without further investigation or enquiry.

Upon the expiry of any such notice as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) *Redemption upon Change of Control*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable), the Registrar and the Fiscal Agent upon the occurrence of a Change of Control at 101 per cent. of the outstanding principal amount of the Notes, together with any interest accrued but unpaid to the date fixed for redemption.

In this Condition 6(c) (*Redemption upon Change of Control*):

"**Affiliate**" means (i) Richard Li and all entities and persons that are subject to the Control of Richard Li and (ii) any publicly traded company (or any of its subsidiaries) where Richard Li is either (a) the chairman of such publicly traded company or (b) directly or indirectly (whether through beneficial ownership, trusts with which he is connected to or otherwise) the largest effective voting interest holder in such publicly traded company.

a "**Change of Control**" occurs when:

(a) Mr. Richard Li or any Affiliate ceases to Control the Issuer;

(b) any Person or Persons, other than Mr. Richard Li or any Affiliate, acting together acquires Control of the Issuer; or

(c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity; and

"**Control**" means the acquisition or control of more than 50 per cent, of the voting rights of the issued share capital of the Issuer or the right to appoint and/or remove all or the majority of the members of the Issuer's board of directors or other governing body, whether held or obtained directly or indirectly, and whether held or obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms "**Controlling**" and "**Controlled**" shall have meanings correlative to the foregoing.

(d) *Redemption upon an initial public offering*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable), the Registrar and the Fiscal Agent, at 101 per cent. of the outstanding principal amount of the Notes, together with any interest accrued but unpaid to the date fixed for redemption, if an Initial Public Offering has occurred.

In this Condition 6(d) (*Redemption upon an initial public offering*):

"**Initial Public Offering**" means the first offering and listing of shares of a holding company of the Issuer, that complies with the rules of The Stock Exchange of Hong Kong Limited or any other internationally recognised stock exchange, provided that such offer of securities is for subscription or sale exclusively for cash, accompanied (or preceded) by the grant of listing of, and permission to deal, in such shares by The Stock Exchange of Hong Kong Limited or any other internationally recognised stock exchange.

(e) *Notice of Redemption*: All Notes in respect of which any notice of redemption is given under this Condition 6 (*Redemption and Purchase*) shall be redeemed on the date specified in such notice in accordance with this Condition 6 (*Redemption and Purchase*). If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 6(b) (*Redemption for tax reasons*), Condition 6(c) (*Redemption upon Change of Control*) or Condition 6(d) (*Redemption upon an initial public offering*), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption upon an initial public offering*) above.

(g) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(h) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

7. **Payments**

(a) *Principal*: Payments of principal shall be made in U.S. dollars by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made in U.S. dollars by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, expense of the Noteholder) (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, at the expense of such Noteholder) to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

So long as the Notes are represented by the Global Note Certificate, each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

8. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands, Hong Kong or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is as required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Holders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(i) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 (*Taxation*).

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Cayman Islands of Hong Kong, references in these Conditions to the Cayman Islands or Hong Kong shall be construed as references to the Cayman Islands or Hong Kong and/or such other jurisdiction.

The Agents shall not be responsible for paying any tax, duty, charges, withholding or other payment referred to in Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Holder or any third party (i) to pay such tax, duty, charges, withholding or other payment in any jurisdiction or (ii) to provide any notice or information to the Agents that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9. **Events of Default**

If any of the following events occurs and is continuing:

(a) *Non-payment of principal*: the Issuer fails to pay principal of any Note within five business days after the due date for such payment; or

(b) *Non-payment of interest*: the Issuer fails to pay interest on any Note within 30 days after the due date for such payment; or

(c) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Covenant and such default remains unremedied for 60 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(d) *Cross-acceleration of Issuer or Subsidiary*:

(i) any Indebtedness of the Issuer, or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity (as extended by an applicable grace period) otherwise than at the option of the Issuer, or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer or any of its Subsidiaries fails to pay when due or (as the case may be) within any applicable grace period any amount payable by it under any Guarantee of any Indebtedness,

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub- paragraph (iii) above, individually or in the aggregate, exceeds U.S.$10,000,000 (or its equivalent in any other currency or currencies); or

(e) *Unsatisfied judgement*: one or more judgement(s) or order(s) from which no further appeal or judicial review is permissible or sought under applicable law for the payment of any amount is rendered against the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer, or any of its Principal Subsidiaries and is not discharged within 60 days; or

(g) *Insolvency, etc.*: (i) the Issuer, or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, or any of its Principal Subsidiaries or the whole or any substantial part of the undertaking, assets or revenues of the Issuer, or any of its Principal Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer, or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its material obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any material part of its indebtedness or any Guarantee of any indebtedness given by it (other than, in the case of a Principal Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent or as a result of a disposal on arm's length terms or as approved by an Extraordinary Resolution of the Noteholders), or (iv) the Issuer, or any of Principal Subsidiaries ceases or threatens to cease to carry on all or any material part of its business; or

(h) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries (other than, in the case of a Principal Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent or as a result of a disposal on arm's length terms or as approved by an Extraordinary Resolution of the Noteholders); or

(i) *Analogous event*: any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgement*) to (g) (*Winding up, etc.*) above; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant, then any Noteholder may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, declare its Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

The Agents need not do anything to ascertain whether any Event of Default has occurred and will not be responsible to Noteholders or any other person for any loss arising from any failure to do so, and, unless and until the Agents otherwise have notice in writing to the contrary, the Agents may assume that (i) no such event has occurred and (ii) that the Issuer is performing all of its obligations under the Fiscal Agency Agreement and the Conditions.

10. **Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal and five years in the case of interest of the appropriate Relevant Date.

11. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

12. **Agents**

In acting under the Fiscal Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a fiscal agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. **Meetings of Noteholders; Modification**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the subordination provisions in the Deed of Covenant or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, (i) a resolution in writing signed by or on behalf of Noteholders of not less than 90 per cent. of the aggregate principal amount of Notes for the time being outstanding will take effect as if it were an

Extraordinary Resolution, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more the Noteholders and (ii) a resolution passed by way of electronic consents through the clearing systems by or on behalf of Noteholders of not less than 75 per cent. in aggregate principal amount of Notes for the time being outstanding with the effect as if it were an Extraordinary Resolution, in each case whether or not relating to a Reserved Matter.

(b) *Modification*: The Notes, these Conditions, the Deed of Covenant, and the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision of the Fiscal Agency Agreement or the Conditions, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

15. **Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the alternative clearing system, for communication by it to entitled account holders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by, and construed in accordance with, English law, except that the subordination provisions set out in Condition 2(a) (*Status and Subordination of the Notes—Status of the Notes*), Condition 2(b) (*Status and Subordination of the Notes—Ranking of claims in respect of the Notes*) and Condition 2(c) (*Status and Subordination of the Notes—Set-off-Notes*) shall be governed by, and construed in accordance with, Cayman Islands law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 16(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint another/person to act as its agent. This Condition applies to Proceedings in England and/to Proceedings elsewhere.

THE GLOBAL NOTE CERTIFICATE

The Global Note Certificate contains the following provisions that apply to the Notes in respect of which it is issued while they are represented by the Global Note Certificate, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meaning in the paragraphs herein.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been issued and delivered by 5:00 p.m. (local time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes evidenced by the Global Note Certificate have become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Note Certificate on the due date for payment in accordance with the terms of the Global Note Certificate, then, at 5:00 p.m. (local time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (local time) on such due date (in the case of (b) above) the Registrar shall in respect of each person shown in the records of Euroclear and/or Clearstream (or any other relevant clearing system) as being entitled to interest in the Notes (each an "**Accountholder**"), enter in the Register the name of such Accountholder as the holder of direct rights under the deed of covenant dated 9 July 2019 (the "**Deed of Covenant**") in respect of the Notes in an aggregate principal amount equal to the principal amount shown in the records of Euroclear and/or Clearstream (or any other relevant clearing system) of such Accountholder's interest in the Notes. To the extent that the Registrar makes such entries in the Register, the Holder will have no further rights under the Global Note Certificate, but without prejudice to the rights that the Holder or Accountholders may have under the Deed of Covenant. Under the Deed of Covenant, Accountholders will acquire directly against the Issuer, subject to their rights being entered in the Register as described above and subject as provided in the Deed of Covenant, all those rights to which they would have been entitled if, immediately before the date on which the Registrar is required to enter in the Register the rights of the Accountholders, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream or any other relevant clearing system (as the case may be).

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**"), where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds from the offering of the Notes, after deducting underwriting commission and expenses, are estimated to be approximately U.S.$545,750,000. The Issuer intends to use the net proceeds for the Issuer's general corporate purposes, including but not limited to, potential transactions and servicing and/or repayment of the Issuer's own indebtedness, including the Notes.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Issuer's consolidated capitalisation and indebtedness as of 31 December 2018 on an actual basis and as adjusted to give effect to (i) the sale of the Notes in this offering, with estimated net proceeds of approximately U.S.$545,750,000, (ii) the aggregate U.S.$140 million investment into the Group in the form of perpetual convertible preference securities on 13 March 2019, and (iii) the U.S.$175 million increase in bank credit facilities by the Issuer entering into a new three-year bank facility in the second quarter of 2019 to partially finance the acquisition of PT Commonwealth Life in Indonesia. This table should be read in conjunction with the audited consolidated financial statements and the notes thereto appearing elsewhere in this Offering Circular.

	As of 31 December 2018	
	Actual	Adjusted
	(U.S.$ thousands)	
Borrowings:		
Bank credit facilities	270,761	445,761
Total Notes to be issued	—	550,000
Total debt	270,761	995,761
Equity:		
Issued capital	297	303
Share premium	1,666,314	1,812,287
Direct capital instrument	538,927	538,927
Capital redemption reserve	990	990
Share-based payment reserve	24,523	24,523
Legal reserve	4,091	4,091
Cash flow hedge reserve	(1,756)	(1,756)
Available-for-sale financial assets revaluation reserve	103,522	103,522
Defined benefit obligation revaluation reserve	(4)	(4)
Foreign currency translation reserve	10,460	10,460
Retained earnings/(accumulated losses)	(641,498)	(641,498)
Total shareholders' equity	1,705,866	1,851,845
Non-controlling interests	317	317
Total capitalisation(1)	1,976,944	2,847,923

Note:

(1) Total capitalisation represents the sum of total debt, non-controlling interests and total shareholders' equity.

Save as indicated above, there has been no other material change in the capitalisation and indebtedness of the Issuer since 31 December 2018.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group comprises life insurance and employee benefits businesses in Japan, Thailand, the Philippines, Indonesia and Singapore, as well as general insurance business in Singapore. The Thai and Japanese businesses have both operated for over 20 years and the Singapore business has operated for 13 years; the Indonesia and Philippines businesses have each operated for over four years. The Group believes it has a strong reputation in each market for delivering innovative products and superior customer service. The Group also benefits from the experience of the Issuer's major shareholders, Richard Li and Swiss Re.

On 30 June 2016, the Group's Hong Kong affiliate, FWD Life Insurance Company (Bermuda) Limited, acquired a 100 per cent. interest in Great Eastern Vietnam for a total consideration of U.S.$35.9 million. Subject to regulatory approval, FWD Life Insurance Company (Bermuda) Limited intends to transfer FWD Vietnam in the second half of 2019 to the Group as part of a corporate restructuring exercise. The transfer amount paid to FWD Life Insurance Company (Bermuda) Limited will be equivalent to the investment cost.

On 23 October 2018, the Group announced that it had agreed to acquire up to 100 per cent. of PT Commonwealth Life, CBA's life insurance business in Indonesia. As part of the agreement, the Group will enter into a 15-year life insurance distribution partnership with PT Bank Commonwealth, CBA's Indonesian banking business. The transaction is subject to regulatory approvals and the Group plans to merge the business with its existing business in Indonesia after the transaction is approved and completed.

As of 31 December 2018, the Group had total assets of U.S.$14,778.4 million and total equity of U.S.$1,706.2 million. For the years ended 31 December 2017 and 31 December 2018, the Group had losses after income tax expenses of U.S.$162.1 million and U.S.$163.2 million, respectively.

The Group's operating companies all sell life insurance products, as defined by applicable regulations; in Singapore, the Group has a composite licence which allows it to sell both life and general insurance products. The Group's insurance subsidiaries produced VNB of U.S.$261.1 million and U.S.$510.3 million for the years ended 31 December 2017 and 31 December 2018, respectively. For the years ended 31 December 2017 and 31 December 2018, the VNB of FWD Thailand was U.S.$112.0 million and U.S.$71.0 million, respectively, representing VNB margins of 55.9 per cent. and 38.0 per cent., respectively. FWD Fuji Life produced VNB of U.S.$128.9 million for the period 1 May 2017 to 31 December 2017 and produced VNB of U.S.$409.0 million for the year ended 31 December 2018, representing VNB margins of 93.0 per cent and 111.2 per cent, respectively. For the years ended 31 December 2017 and 31 December 2018, the VNB of FWD Philippines was U.S.$13.9 million and U.S.$22.2 million, respectively, representing VNB margins of 54.0 per cent. and 57.6 per cent., respectively. For the years ended 31 December 2017 and 31 December 2018, the VNB of FWD Indonesia was U.S.$6.0 million and U.S.$ 5.1 million, respectively, representing VNB margins of 23.4 per cent. and 20.8 per cent., respectively.

The Group's focus on value creation is evidenced by the strong growth in VNB in recent years, as over the three years ended 31 December 2018, the CAGR of the Group's VNB was 92.5 per cent. The Group strives to maintain a well-balanced distribution platform, including agency, bancassurance, brokerage, retail and direct channels. For the year ended 31 December 2018, the agency, bancassurance, brokerage, retail and direct channels represented 8.1 per cent., 24.6 per cent., 58.7 per cent., 2.1 per cent., and 3.4 per cent., respectively, of the Group's APE.

RECENT DEVELOPMENTS

The SCB Transaction

On 1 July 2019, FWD Group Financial Services Pte. Ltd., a wholly-owned subsidiary of the Group entered into a binding share sale agreement with SCB, regarding the sale of SCB's entire stake in SCB Life, and upon completion of the transaction will enter into a distribution agreement to establish a long-term bancassurance partnership with SCB.

Under this arrangement, SCB will distribute FWD's life insurance products to SCB's customers in Thailand, leveraging SCB's distribution channels for a period of 15 years. FWD will pay a total consideration of THB92.7bn, along with additional payments common in bancassurance transactions over the course of the partnership. The transaction is expected to be completed in the latter part of 2019 subject to certain conditions, such as obtaining regulatory approvals and approval by SCB's shareholders.

For more information on the risks related to the SCB Transaction, see "*Risk Factors—The Group may not be able to successfully complete the SCB Transaction.*" and "*Risk Factors—The Group may not realise the expected benefits of the SCB Transaction.*"

FORMATION OF THE GROUP

History

The Group's Thailand life insurance business was originally incorporated in 1997 in Thailand as Osotspa Life Insurance Company, Limited. The company was purchased by Aetna in August 1998 and renamed Aetna Osotspa Life Insurance Company, Limited. Following an internal reorganisation by Aetna in 2000, ING acquired 100 per cent. of the Thailand life insurance business from Aetna and renamed the company ING Aetna Osotspa Life Insurance Company, Limited. The company name was ultimately changed to ING Life Limited in 2003.

Acquisition by Richard Li and Swiss Re

The Group entered into the Thailand market in February 2013 through the acquisition by Pacific Century Group of the insurance operations of ING Groep in Hong Kong, Macau and Thailand. The company in Thailand was subsequently rebranded FWD Life Insurance Public Company Limited ("FWD Thailand"). In December 2013, Swiss Re acquired a shareholding in the Group which it subsequently increased to its current investment of 13.4 per cent..

Expansion into new Markets

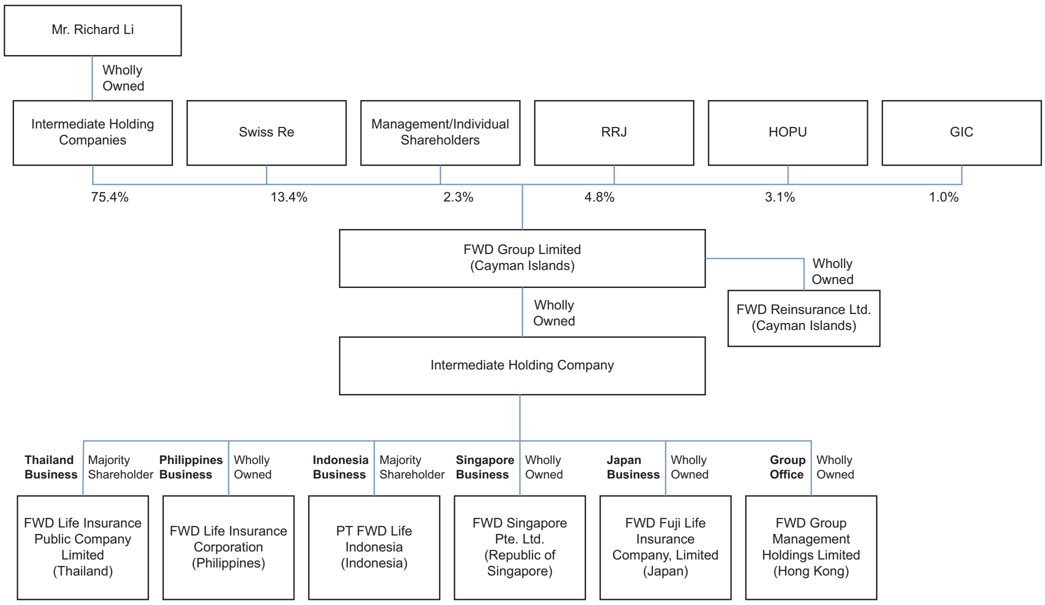
In 2013, the Group entered into a strategic alliance in Indonesia through the establishment of PT Finansial Wiramitra Danadyaksa ("FWD Indonesia"). The strategic alliance obtained a life insurance licence in 2013 and commenced operations in January 2014. In May 2015, the Group acquired a direct equity stake and management control of FWD Indonesia and changed the name of the company to PT FWD Life Indonesia. In 2014, the Group incorporated a wholly owned subsidiary, FWD Life Insurance Corporation in the Philippines ("FWD Philippines"), obtained a life insurance licence in April 2014 and commenced operations in September 2014. In April 2016, the Group acquired management control of Shenton Insurance Private Limited in Singapore and rebranded the company as FWD Singapore Pte. Ltd. ("FWD Singapore"). As part of the acquisition of FWD Singapore, the Group also received a composite insurance licence from the Singapore regulator, so FWD Singapore can write both life and general insurance business. On 30 April 2017, the Issuer completed the acquisition of Fuji Life. Fuji Life was rebranded as FWD Fuji Life Insurance Company, Limited on 1 September 2017.

Group Structure

The Issuer is the holding company of companies including the following five operating subsidiaries: FWD Thailand, FWD Fuji Life, FWD Indonesia, FWD Philippines and FWD Singapore. In addition to the operating companies, the Group has the following significant subsidiaries:

- FWD Group Management Holdings Limited (Hong Kong) houses the regional corporate office of the Group, including the senior management team. The regional corporate office provides oversight and support to the Group's operating subsidiaries, produces consolidated financial statements and other consolidated management reports, and sets the overall strategic direction and priorities for the Group. The Group recharges certain of the expenses incurred by the regional office in providing regional support and consulting services to the operating subsidiaries. This company produced losses after income taxes of U.S.$51.8 million and U.S.$66.1 million for the years ended 31 December 2017 and 31 December 2018, respectively.
- FWD Reinsurance Limited (Cayman Islands) was established in February 2017 to reinsure new business from FWD Fuji Life following the acquisition. Reinsuring business offshore from FWD Fuji Life enables the Group to more efficiently manage its capital. Offshore reinsurance is commonly used for capital management purposes by the Group's international peers that have businesses in Japan. This company produced profits of U.S.$13.6 million for the period from 3 February 2017 (date of incorporation) to 31 December 2017 and U.S.$92.8 million for the year ended 31 December 2018, and paid dividends of U.S.$ 41 million during 2018 to FWD Group Ltd.

The following chart is a simplified presentation of the structure of the Group as of the date of this Offering Circular:



The following table shows certain financial data for the primary businesses within the Group for the year indicated:

	As of and for the year ended 31 December 2018					
	Total Revenue		Total Assets		Total Equity	
	(U.S.$ million)	(% of Group)	(U.S.$ million)	(% of Group)	(U.S.$ million)	(% of Group)
FWD Group Limited	2,899.4	100	14,778.4	100	1,706.2	100
FWD Thailand	994.1	34	4,985.9	34	1,135.4	67
FWD Philippines	131.6	5	392.7	3	46.0	3
FWD Indonesia	49.8	2	134.9	1	37.8	2
FWD Singapore	57.0	2	137.9	1	33.4	2
FWD Fuji Life	1,276.9	44	8,540.8	58	375.2	22
FWD Reinsurance	373.9	13	354.5	2	70.8	4

SHAREHOLDERS

Richard Li

The Group benefits from the support of its majority shareholder, Richard Li, who indirectly holds a 75.4 per cent. interest in the Issuer. Commencing in 1993, Richard Li has built a portfolio of interests in property, financial services and other investments in the Asia Pacific region. The three main pillars of Richard Li's portfolio of companies are telecommunications, media and internet solutions (through his interests in PCCW Limited, a company listed on the SEHK), property development (through his interests in Pacific Century Premium Developments Limited, a company listed on the SEHK) and financial services (through his interests in PineBridge Investments Limited ("PineBridge") and the Issuer).

Swiss Re

The Swiss Re Group is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Founded in Zurich, Switzerland in 1863, the Swiss Re Group serves clients through a network of over 60 offices globally and is rated "AA-" by Standard & Poor's Ratings Group ("Standard & Poor's"), "Aa3" by Moody's and "A+" by A.M. Best. Swiss Re has a 13.4 per cent. shareholding in the Issuer. The Group plans to leverage the Swiss Re Group's global insights and broad industry expertise, including enhancement of its health and protection platform.

Shareholders' Agreement

The rights of Richard Li and Swiss Re as beneficial owners of the Issuer are governed by the Shareholders' Agreement. Richard Li is not a member of the Board of Directors of any of the businesses within the Group or of the Issuer. Pursuant to the Shareholders' Agreement, Richard Li has the right to appoint up to eight members of the Board of Directors of the Issuer (including the Chairman of the Board), an observer of the Board of Directors of the Issuer and the Chief Executive Officer of the Issuer. Swiss Re may appoint up to two directors and one observer of the Board of Directors of the Issuer, subject to the approval of Richard Li. The Board of Directors operates and manages the Group's businesses independently, subject to the provisions of the Shareholders' Agreement, pursuant to which certain matters require the consent of and/or notifications to the shareholders.

Subject to certain exceptions, both have pre-emption rights in respect of any future equity capital raising by the Issuer. In addition, the consent of Swiss Re is required before the Board of Directors may take actions in respect of certain reserved matters, including approvals of or material amendments to business plans and budgets, changes to the Group's business scope, changes to the Group's risk management framework, incurrence of financial indebtedness in excess of certain thresholds, voluntary repayment or prepayment of debt in excess of certain thresholds and other matters.

Additional Shareholders

The Issuer has three additional shareholders owning perpetual convertible preference securities raised from private transactions. These shareholders have no voting rights but do have observer rights to attend meetings of the Board of Directors of the Issuer, and subject to certain exceptions, have pre-emption rights in respect of any future equity capital raising by the Issuer.

THE GROUP'S COMPETITIVE STRENGTHS

The Group believes that it benefits from the following key competitive strengths:

Balanced multi-channel distribution

The Group distributes its products through agency, bancassurance, brokerage, retail and direct channels to reduce dependency on any single distribution channel. By contrast, the Group believes that many of its competitors in Southeast Asia and Japan rely on one or two distribution channels. The agency, bancassurance, brokerage, retail and direct channels contributed 8.1 per cent., 24.6 per cent., 58.7 per cent., 2.1 per cent., and 3.4 per cent., respectively, of the Group's APE for the year ended 31 December 2018. The Group has a wide bancassurance network with distribution arrangements in place with banks in South East Asia and Japan, including key exclusive bank partnerships with TMB in Thailand and Security Bank in the Philippines. The Group has recently expanded in the broker channel, particularly in Japan, as well as Thailand and Indonesia for the sale of its group insurance products. Finally, the Group is building its retail life and general insurance business in Singapore through an end to end online customer portal. The Group plans to replicate learnings and successes from FWD Singapore to its other businesses to grow its direct to customer channel.

Diversified product portfolio to meet customer needs

The Group maintains a diversified product portfolio that enables it to address the needs of a broad segment of customers in different life stages. The portfolio includes accident, health, protection, savings, investment plans, and group life and health insurance through the Life Businesses, and travel, auto and personal accident products through its general insurance business in Singapore. The Group believes its diversified product mix allows the Group to create more business value and rapidly address changing market needs.

Focus on customer experience and customer service

The Group believes it has a loyal and growing customer base. As of 31 December 2018, the Group had approximately 4.7 million customers of which 2.7 million were individual customers and 2.0 million were group members. FWD Thailand had 2.2 million customers including 1.2 million group members and FWD Fuji Life had over 1.0 million customers including 45,000 group members.

The Group is committed to improving customer experience and providing excellent customer service. To that end, in 2016, the Group introduced an independent third party organisation to measure its customer experience index, and to track this index on an annual basis. This was initially implemented in Thailand but is now in operation in all of the Group's markets. All of the businesses within the Group have a customer experience index key performance indicator as a part of the long term bonus scheme.

Rapid growth and geographic expansion

Since the Group's acquisition of FWD Thailand in February 2013, the Group has expanded rapidly through a combination of green field start-ups in Indonesia and the Philippines, and acquisitions in Singapore and Japan. The businesses within the Group have experienced strong growth over the three years ended 31 December 2018, as evidenced by a CAGR of 58.7 per cent. in APE and 92.5 per cent. in VNB, respectively, in its life insurance businesses.

The Group has a strong market presence in Thailand through FWD Thailand, which has held a top ten market position in life insurance by weighted new business premium since 2011, and has improved its market ranking from 10th when it was acquired by the Issuer to 5th by weighted new business premium as of 31 December 2018 (according to TLAA statistics). The Group believes that it is well-positioned to continue to strengthen the market positions of its businesses and create more value from its operations.

Stable and prudent financial profile

Through its investment, and asset and liability management strategies, the Group has maintained a stable financial profile and has limited its risk exposure. The Group seeks to maintain an investment portfolio with a focus on investment grade fixed income investments. As of 31 December 2018, the Group's investment portfolio, excluding investments supporting investment linked contracts under which policyholders assume the investment risk, comprised U.S.$10,543.8 million in investment assets, with 79 per cent. of its assets comprising fixed income securities. Within the Group's fixed income portfolio, approximately 5 per cent. of the securities were rated below investment grade. The Group has strong credit experience, with no credit defaults in its fixed income portfolio since its formation in 2013. Thailand's asset and liability management strategy has enabled it to manage its duration gap within a narrow range, which was 2.4 years as of 31 December 2017, and 1.4 years as of 31 December 2018. This has enabled Thailand to maintain a solvency ratio above its target of 220 per cent. despite volatile conditions in interest rates and equity markets.

FWD Fuji Life also has strong asset and liability management capabilities and has maintained a solvency ratio above 700 per cent. at the end of each of the last two fiscal years. FWD Fuji Life, like many of its peer companies in Japan, has an asset/liability mismatch due to the long duration of liabilities in Japan and the inability to effectively match these durations with appropriate assets. FWD Fuji Life has a liability duration of approximately 44 years and an asset duration of 9.7 years as of 31 December 2018. To address this issue, FWD Fuji Life closely matches the cash flows of its assets and liabilities over the next 20 years.

Experienced management team

The Group's executive management team has extensive experience, with an average of more than 25 years of management experience in the insurance and financial services industries. Moreover, the Issuer's Board of Directors includes several members who have served in leadership positions across the global insurance industry, including Asia. The Group is able to draw on this combination of varied and broad experience to drive growth and react quickly to shifts in the industry. Additionally, the Group believes that it benefits from the local and regional relationships of the members of its executive management team and its Board of Directors in attracting talent, growing its business and capitalising on business opportunities.

THE GROUP'S STRATEGY

The Group seeks to implement the following key business strategies to capitalise on future growth opportunities:

Focus on value creation

The Group maintains a focus on the overall value of its businesses while seeking to achieve profitable growth. The Group is enhancing its product portfolio, with a focus on health and protection products, which the Group believes will further strengthen its VNB margins. The Group also plans to leverage its customer analytic capabilities to develop competitive and high value products for its different customer segments.

Technology driven multi-channel distribution

The Group plans to further expand its multi-channel distribution capability in all of its businesses and is focused on using technology to enable its distribution channels to be more productive and to improve the interactions with customers. FWD Indonesia and FWD Philippines were both among the first companies in their respective markets to equip agents with tablets and make the sales application process "paperless", and FWD Thailand has moved most of its agency force to tablets. The Group is also using technology to help its agency management monitor and manage agent activities, as well as help agents keep in touch with customers and prospects more easily. In its bancassurance and broker channels, the Group is using technology to enhance the sales process and customer experience using a paperless, straight-though tablet based process. The Group is in the process of embedding FWD products and services into the digital eco-systems of the Group's bank partners, and this will be augmented by joint engagement platforms focused on customer passions and lifestyle continuity. The Group is investing in its direct to customer capabilities across all markets, especially Singapore, and expects this channel to become more significant over time. Finally, the Group is rapidly expanding its data analytic capabilities to enhance distribution effectiveness across all distribution channels.

Create a differentiated brand through customer-led products and services

The Group positions itself as the customer-led insurer and will continue to invest in its web portals and digital customer service platforms to create an enhanced customer experience. The Group is in the process of simplifying its contract language across its operating businesses and eliminating all but two exclusions for payment of claims in its individual life insurance products. The Group is simplifying its online claim processes to make filing and settlement of claims easier and faster for customers, including "click to claim" on its travel insurance product in Singapore. The Group is also transforming its product development process from the traditional insurance approach of product-led or distribution-led to customer-led to ensure that its products meet the needs of its customers. The Group believes its focus on customer-led can convert increased brand awareness into brand consideration, eventually establishing a differentiated and trusted brand in the region.

Maintain financial discipline

While pursuing these key commercial objectives, the Group plans to maintain its focus on financial discipline. The Group plans to fund its future business growth through efficient use of capital, by focusing on less interest rate sensitive products, effectively managing the duration gap between its assets and liabilities and disciplined expense management.

THE GROUP'S BUSINESSES

The Group comprises life insurance and employee benefits businesses in Japan, Thailand, the Philippines, Indonesia, and Singapore, as well as a general insurance business in Singapore. Life insurance is the Group's largest business line, and operations in Japan and Thailand constitute the substantial majority of the Group's life insurance business.

THE GROUP'S PRODUCTS

The Group offers a broad range of life insurance products and employee benefits (group insurance) products through its operating companies in Thailand, Indonesia, the Philippines and Singapore. The Group also offers individual general insurance products through its operating company in Singapore.

The Group's key life insurance products are described below.

- ***Traditional Participating Life Insurance***. Traditional participating life insurance products are contracts of insurance whereby the policyholders have a contractual right to receive additional benefits based on investment returns and/or other factors, normally at the discretion of the insurer, as a supplement to any guaranteed benefits.
- ***Traditional Non-Participating Life Insurance***. Traditional non-participating life insurance products are contracts of insurance whereby the policyholder has only a right to the guaranteed benefit, which is not at the contractual discretion of the insurer.
- ***COLI.*** A product sold to small and medium sized companies in Japan to provide key-man protection, often used as a tax management strategy.
- ***Stand-alone Protection Insurance***. Stand-alone protection insurance products provide mortality, morbidity or sickness benefits and include term insurance, medical, critical illness and accident and disability coverage.
- ***Investment-linked***. Investment-linked products are insurance products that link the customer's account value to the value of underlying investments, such as mutual funds. In general, the investment risk associated with the account value of these products is born by the policyholder.
- ***Group Insurance Products***. Group insurance products include both group life insurance and group medical benefits that are offered to a group of customers under a master policy contract.
- ***Riders***. Riders are additional benefits that can be attached to individual life insurance products. Protection riders provide mortality, morbidity or sickness benefits and include term, medical, critical illness and accident and disability coverage. Savings riders provide additional saving opportunities.

The Group's key general insurance products are currently motor insurance, travel insurance and personal accident insurance. The Group plans to expand its offerings further in the personal lines space, and has no intention of writing commercial risks at this time.

THAILAND

Business

The business in Thailand commenced life insurance operations in 1997. In February 2013, the Issuer acquired the business from ING and rebranded it as FWD Thailand in August 2013. Post the acquisition, in line with the strategy across the Group, FWD Thailand adopted a customer-led strategy focused on health, wealth, retirement and education. The Thai market has been and continues to be dominated by traditional non-participating and participating products, and a majority of FWD Thailand's sales are in these two product categories. FWD Thailand is also one of the few life insurers that successfully sells investment-linked products and group insurance products, as well as various protection riders. VNB margins and APE declined in 2018 due to the implementation of a new industry mortality table, regulatory changes which require higher unit linked reserves and weaker market conditions.

The following table shows certain operating data for FWD Thailand for the years indicated:

	Year ended 31 December			
	2015	2016	2017	2018
	(U.S.$ millions, except VNB margin)			
Annual premium equivalent	138.6	186.5	200.2	187.1
Gross written premiums	496.4	603.7	759.1	869.6
Value of new business	62.1	78.6	112.0	71.0
VNB margin (per cent.)	44.6	42.2	55.9	38.0
Profit for the year(1)	7.1	16.4	30.5	31.4
Operating profit(2)	10.6	5.8	20.2	23.0

Notes:

(1) Before intercompany eliminations.

(2) Operating profit is a non-GAAP measure and is calculated by excluding certain non-recurring items, including realised gains and losses, from IFRS pre-tax income or loss.

Products

The following table shows the product mix for FWD Thailand on an APE basis for the years indicated:

	Year ended 31 December			
	2015	2016	2017	2018
Traditional non-participating life insurance products	71.7%	52.6%	39.7%	39.3%
Traditional participating life insurance products	15.3%	12.1%	7.7%	9.7%
Investment-linked products	0.7%	16.5%	35.7%	35.9%
Protection products	6.6%	6.6%	7.2%	8.9%
Group insurance products	5.7%	12.2%	9.7%	6.2%

Distribution

FWD Thailand operates a multi-channel distribution model. The bancassurance channel, through its exclusive partnership with TMB, is the largest contributor of APE and VNB in Thailand. The relationship with TMB, which commenced in 2007, provides distribution access to approximately 416 branches and 2.6 million potential customers as of 31 December 2018 per TMB. In July 2017, the Group extended its exclusive partnership with TMB for an additional 15 year period. The Group also has a non-exclusive distribution agreement for unit-linked products with CIMB Thai Bank Public Company Limited. The second largest channel is the agency channel, and FWD Thailand has over 4,400 agents across 38 agency offices and 16 branches nationwide. FWD Thailand was ranked 6th in alternative channel sales in Thailand for the year ended 31 December 2018 according to data classified and published by the Thai Life Assurance Association. In 2015, FWD Thailand launched a retail distribution channel with one of the major supermarket chains in Thailand and is currently in the process of expanding its retail partners.

FWD Thailand's key distribution strategies are:

- continue to build and strengthen its multi-channel distribution capability, comprising agency, bancassurance, direct marketing, retail and digital;
- expand the agency force both in terms of manpower and professionalism and productivity through (i) disciplined recruitment targeting both experienced hires and newcomers; (ii) effective training through the dedicated FWD Academy; (iii) continued focus on activity management and measurement; and (iv) an improved sales process using e-application on tablets;
- expand and further strengthen the relationship with TMB, including the implementation of the Insurance Specialist model to uplift branch productivity and improve VNB margin and the development of customer insights through data analytics to drive further penetration of its customer base;

- continue to manage sales towards protection products and riders to provide customers with relevant protection cover and improve VNB margins; and
- enhance operational efficiency to support sales and improve customer servicing.

Regulatory

FWD Thailand is regulated by the Thai Office of Insurance Commission ("OIC"), the Department of Business Development and the Office of the Securities and Exchange Commission of Thailand. The principal regulator of Thailand's insurance industry is the OIC. Thailand's life insurance sector is governed by the Life Insurance Act 1992, as amended by the Life Insurance Act (No. 2) 2008 and the Non- Life Insurance Act 1992, as amended by the Non-Life Insurance Act (No. 2) 2008.

In March 2015, the OIC issued the Life and Non-Life Insurance Act (No. 3). Under this Act, the Ministry of Finance has discretion to permit majority foreign ownership and a majority of foreign directors, in order to promote the strength of the insurer and soundness of the insurance sector. Furthermore, in January 2017, the Ministry of Finance issued a notification which sets out the requirements to be met when applying for approval to allow foreign shareholdings of more than 49 per cent., which includes, but is not limited to, sufficient capital adequacy ratios, the ability to promote stability of insurance companies or the insurance industry and the industry experience and financial strength of the foreign shareholder.

Insurance companies are required to maintain assets in Thailand of not less than the amount of the capital funds required under the relevant Thai Regulations. The amount of capital funds required is determined in accordance with the types, procedures and conditions prescribed pursuant to relevant Thai regulations. In addition, life insurers are required to maintain capital funds in accordance with the Thai regulators' risk-based capital framework. The framework calculates the Capital Adequacy Ratio ("CAR") of any given insurance company, which indicates the amount of capital that life insurers in Thailand, including branch offices of life foreign insurers, must maintain. Under the regulations on capital fund requirements, life insurers in Thailand, including branch offices of life foreign insurers, must maintain a CAR of at least 140 per cent.

JAPAN

Business

On 30 April 2017, the Group completed the acquisition of Fuji Life from AIG. Fuji Life was rebranded FWD Fuji Life Insurance Company, Limited as from 1 September 2017. FWD Fuji Life commenced business in 1996, and was acquired by the AIG Group in 2010 and renamed AIG Fuji Life Insurance Company, Limited.

The Japanese market has many product segments including traditional non-participating and traditional participating savings products, standalone protection products, variable life and variable annuity products, COLI, third sector medical products, and group insurance. The fastest growing product segment in recent years is third sector medical products according to statistics from the Japan Life Insurance Association, and Fuji Life is increasingly focused on this product category. Fuji Life has also successfully entered the COLI market in the year ended 31 March 2016. FWD Fuji Life has reduced its sales of traditional yen denominated savings products in recent years as the extremely low interest rates in Japan have made these products less attractive for both customers and insurers. FWD Fuji Life sells primarily COLI products, with over 80 per cent. of FWD Fuji Life's product mix on an APE basis consisting of such products. The remainder is made up of third sector cancer and medical products and traditional non-participating life insurance products. The Group's operations in Japan benefit from higher than plan VNB margins due to a favourable product mix, with higher SME term sales.

Recent changes announced by the National Tax Agency of Japan in 2019 with respect to the tax deductibility of insurance premiums paid on COLI products (which were previously fully-deductible) have significantly impacted the near term demand for and FWD Fuji Life's ability to sell COLI products (see "*Risk Factors—Changes in taxation may materially and adversely affect demand for the Group's insurance products*"). FWD Fuji Life is developing COLI products to adapt to the new tax regulations and plans to roll these new products out beginning with the third quarter of 2019. FWD Fuji Life is also repricing and updating its individual protection products, including its third sector cancer and medical products, and strategically plans to change its product mix to a more balanced portfolio between COLI products and individual protection products.

The following table shows certain operating data for FWD Fuji Life for the years indicated:

	Year ended 31 December	
	2017	2018
	(U.S.$ millions, except VNB margin)	
Annual premium equivalent	138.6	367.7
Gross written premiums[(1)]	985.1	2,028.1
Value of new business[(1)]	128.9	409.0
VNB margin (per cent.)[(1)]	93.0	111.2
Profit/(Losses) for the year[(1)]	(15.2)	38.4
Operating Profit[(2)]	(19.4)	34.0

Note:

(1) Before intercompany eliminations. Annual premium equivalent, gross written premium, value of new business and the loss for the year ended 31 December 2017 are for the period from 1 May to 31 December reflecting the acquisition date of 30 April 2017. Profit or loss, gross written premium, value of new business and VNB margin include FWD Reinsurance.

(2) Operating profit is a non-GAAP measure and is calculated by excluding certain non-recurring items, including realised gains and losses, from IFRS pre-tax income or loss.

Products

The following table shows the product mix for FWD Fuji Life on an APE basis for the years indicated:

	Year ended 31 December	
	2017	2018
	(U.S.$ millions, except VNB margin)	
Traditional non-participating life insurance products	89.7%	91.7%
Traditional participating life insurance products	0.1%	0.0%
Protection products	9.8%	8.1%
Group insurance products	0.4%	0.2%

Distribution

FWD Fuji Life operates a multi-channel distribution model, including IFAs, agents, and direct to customer. FWD Fuji Life's channel mix was 95 per cent. brokerage (IFA) and 5 per cent. direct as a percentage of annualised premiums for the year ended 31 December 2018. FWD Fuji Life distributes its products through four different types of IFAs:

- visit type agencies which visit customers to sell insurance products; FWD Fuji Life currently works with 2,434 of these agencies;
- tax professionals that sell primarily COLI products; FWD Fuji Life currently works with 111 of these agencies;
- shop type agencies, typically located in shopping malls, where customers stop in to buy insurance products; this type of agency is growing rapidly and FWD Fuji Life currently works with 209 of these agencies; and
- professional advisors, one agency that sells primarily FWD Fuji Life products.

The agent distribution is through AIG's non-life subsidiary, Fuji Fire & Marine, Ltd.; the Group has entered into a long-term distribution agreement with AIG to maintain this distribution channel. FWD Fuji Life's direct channel is primarily through telemarketing, and the company is developing and expanding its web-based sales portal, which is growing rapidly from a small base.

FWD Fuji Life's key distribution strategies are:

- continue to strengthen and expand its IFA relationships;
- enhance the agency relationship with Fuji Fire & Marine, Ltd. to maintain production through this channel;
- expand the direct channel base, particularly through web based sales;
- continue to manage sales towards medical products and riders to provide customers with relevant protection cover and improve VNB margins;
- increase operational efficiency to support sales and improve customer servicing; and
- enhance the FWD brand recognition.

Since transition from AIG ownership to FWD, the productivity of FWD Fuji Life's IFAs has significantly increased due to active sales management, training and revised compensation structure.

Regulatory

FWD Fuji Life is regulated principally under the Insurance Business Act, which governs both life and non-life insurance businesses in Japan. Pursuant to the Insurance Business Act, the Prime Minister has authority to supervise insurance companies in Japan, including Japanese branch offices of foreign-based insurers. Most of such authority is delegated to the Commissioner of the FSA, who in turn has delegated a part of such authority to the Directors of the competent Local Finance Bureaus of the Ministry of Finance. Certain of the provisions of and regulations under the Insurance Business Act and certain other recent regulatory developments are briefly described below. In this description, the term "insurance products" includes annuity products that are sold by life insurance companies in Japan. Such annuity products are regarded as insurance products for purposes of the Insurance Business Act, and the term "insurance" should be interpreted accordingly.

Under the Insurance Business Act, the insurance underwriting business may be conducted by a licenced joint stock corporation, a licenced mutual company or the Japanese branch of a licenced foreign insurer, with certain limited exceptions. FWD Fuji Life is a licenced joint stock corporation.

The Prime Minister or the Commissioner of the FSA also has the authority to order the suspension of businesses in whole or in part, dismissal of officers including directors, executive officers, accounting advisors, statutory auditors and an independent auditor, and revoke licences, in the event of violation of material provisions of laws or regulations or in certain other cases prescribed by the Insurance Business Act.

INDONESIA

Business

The Group commenced business operations in Indonesia in January 2014 through a strategic alliance, the business having obtained its insurance licence in February 2013. In May 2015, the Group acquired management control of the Indonesia business, and the Group consolidated Indonesia in its financial results commencing with 30 June 2015.

The Indonesian market in recent years has been dominated by investment linked products, and a majority of FWD Indonesia's individual sales are in this product category. FWD Indonesia has also expanded significantly in the group insurance space over the past two years.

The following table shows certain operating data for FWD Indonesia for the years indicated:

	Year ended 31 December			
	2015	2016	2017	2018
	(U.S.$ millions, except VNB margin)			
Annual premium equivalent	4.3	15.7	25.7	24.6
Gross written premiums(1)	2.5	19.0	62.7	61.6
Value of new business	1.5	3.3	6.0	5.1
VNB margin (per cent.)	35.7	21.3	23.4	20.7
Profit for the year(2)	(8.7)	(19.3)	(27.2)	(53.0)
Operating Profit(3)	(24.5)	(25.6)	(31.4)	(37.1)

Notes:

(1) Data is for FWD Indonesia without taking into account the Issuer's direct equity ownership thereof.

(2) Before intercompany eliminations. The loss for the year ended 31 December 2015 is for seven months (the period from 1 June to 31 December 2015) reflecting the date of direct equity investment on 31 May 2015.

(3) Operating profit is a non-GAAP measure and is calculated by excluding certain non-recurring items, including realised gains and losses, from IFRS pre-tax income or loss.

Products

The following table shows the product mix for FWD Indonesia on an APE basis for the years indicated:

	Year ended 31 December			
	2015	2016	2017	2018
Traditional non-participating life insurance products	1.0%	0.6%	0.9%	2.0%
Investment-linked products	85.8%	57.5%	51.7%	44.2%
Group insurance products	13.2%	41.9%	47.4%	53.8%

Distribution

FWD Indonesia is developing a multi-channel distribution network. As of 31 December 2018, FWD Indonesia has over 2,600 agents and non-exclusive bancassurance partnerships with Bank KEB Hana and Bank Tabungan Pensiunan Nasional ("BTPN"). FWD Indonesia received a Sharia life insurance licence in 2015, and developed and launched its first Sharia product in 2016 aimed at the substantial Muslim population in Indonesia.

FWD Indonesia's key distribution strategies are:

- build and strengthen its multi-channel distribution capability, comprising agency, bancassurance, group employee benefits, and digital;
- develop a nationwide agency presence covering the major urban centres supported by a hub and spoke branch strategy through (i) disciplined recruitment targeting both experienced hires and newcomers; (ii) effective training through the dedicated FWD Academy; (iii) focus on activity management and measurement; and (iv) leverage the use of technology to increase recruitment and enhance the sales process;
- build successful bancassurance partnerships by (i) offering high net worth / signature products to large JV banks; (ii) launch credit life and SME products to penetrate multi finance companies and the SME lending channel; and (iii) utilise both bank staff and Insurance Specialist models to optimise branch productivity and channel VNB;
- focus on protection products and riders, with clear and simple features, terms and conditions to provide customers with relevant protection cover and deliver VNB;
- build a successful Sharia business; and
- establish the FWD brand with focus on a leadership position in the digital space.

Regulatory

FWD Indonesia is regulated by OJK, which is the principal regulator of Indonesia's insurance industry. Indonesia's life and non-life insurance companies are governed by Law No. 40 (2014) on Insurance, which was enacted in October 2014 (the "2014 Insurance Law").

In accordance with the 2014 Insurance Law, foreign insurance companies can only access the Indonesian insurance market in the form of a joint venture company, with holdings being currently limited to a maximum of 80 per cent. The 2014 Insurance Law foreshadows changes to the current rules that were expected to be prescribed in a government regulation to be issued by April 2017. As at the date of this Offering Circular, this government regulation has not been issued.

The insurance law further requires insurers to spin-off their Sharia units within 10 years, except for companies with more than 50 per cent. of premiums being derived from their Sharia unit, which are required to spin-off such units immediately. Upon separation, a minimum capital requirement of IDR50 billion for Sharia units must be complied with upon separation of such Sharia units.

The risk-based capital system introduced in Indonesia looks to define and ascertain that the total adjusted capital in the capital funds required is sufficient to cover the risk of losses arising from credit, liquidity, market, insurance and operational risk. According to the solvency regime set out in MOF Regulation No. 53/PMK.010/2012 dated 3 April 2012 ("MOF Regulation 53"), insurance companies should at all times maintain a solvency level of at least 100 per cent. of its minimum risk-based capital. Furthermore, an annual target level of solvency must be set to a minimum of 120 per cent. of its minimum risk-based capital. As from 1 July 2017, minimum solvency requirements will be regulated under OJK Regulation No. 71/POJK.05/2016 on the Financial Soundness of Insurance and Reinsurance Companies ("OJK Regulation 71/2016"), which prescribes the same levels of mandatory minimum and target solvency ratios as MOF Regulation 53.

THE PHILIPPINES

Business

The Group was granted the first foreign life insurance licence under the new Philippines Insurance code and was the first to enter the Philippines life insurance market in over 10 years when it received its Certificate of Authority to operate as a life insurance company from the Insurance Commissioner on 2 April 2014. FWD Philippines launched commercial operations in September 2014.

The Philippines insurance market has recently been dominated by investment linked products, and nearly all of FWD Philippines' individual sales are in this product category. FWD Philippines began selling group insurance products in Q4 of 2016 and expects to expand in the group insurance space going forward. FWD Philippines also plans to further balance its product portfolio with protection insurance products, particularly critical illness products. FWD Philippines achieved a top 10 position in weighted new business premium in 2018 (in terms of weighted new business premiums in 2018, according to data published by the Philippines Life Insurance Association).

The following table shows certain operating data for FWD Philippines for the dates indicated:

	Year ended 31 December			
	2015	2016	2017	2018
	(U.S.$ millions, except VNB margin)			
Annual premium equivalent	13.8	19.4	25.8	38.5
Gross written premiums	49.9	63.7	90.4	145.5
Value of new business	7.9	11.9	13.9	22.2
VNB margin (per cent.)	57.4	61.8	54.0	57.6
Profit for the year[(1)]	(18.0)	(21.0)	(17.7)	(15.4)
Operating Profit[(2)]	(21.6)	(20.9)	(17.7)	(20.0)

Note:

(1) Before intercompany eliminations.

(2) Operating profit is a non-GAAP measure and is calculated by excluding certain non-recurring items, including realised gains and losses, from IFRS pre-tax income or loss.

Products

The following table shows the product mix for FWD Philippines on an APE basis for the years indicated:

	Year ended 31 December			
	2015	2016	2017	2018
Traditional non-participating life insurance products	0.2%	0.3%	0.1%	N.A.
Investment-linked products	99.8%	99.5%	88.6%	78.4%
Protection products	N.A.	N.A.	7.0%	12.8%
Group insurance products	0.0%	0.2%	4.3%	8.8%

Distribution

FWD Philippines is developing a multi-channel distribution network. As of 31 December 2018, FWD Philippines has over 3,300 agents and a 15 year exclusive bancassurance partnership with Security Bank. The relationship with Security Bank, which commenced in 2015, provides FWD Philippines with distribution access to approximately 302 branches as of 31 December 2018. FWD Philippines' second largest channel is the agency channel, and it has over 3,300 agents across 14 agency offices. In 2016, FWD Philippines launched an online distribution channel which has developed significantly with added functionality.

FWD Philippines key distribution strategies are:

- build and strengthen its multi-channel distribution capability, comprising agency, bancassurance, group employee benefits and digital;
- develop a nationwide agency presence covering the major urban centres supported by a hub and spoke branch strategy through (i) disciplined recruitment targeting both experienced hires and newcomers; (ii) effective training through the dedicated FWD Academy and (iii) focus on activity management and measurement;
- build a successful bancassurance partnership with Security Bank by establishing visible "Orange Zones" in key branches to draw attention to insurance and effectively utilise both bank staff and the Insurance Specialist models to optimise branch productivity and VNB;
- focus on protection products and riders, with clear and simple features, terms and conditions to provide customers with relevant protection cover and deliver VNB; and
- establish the FWD brand with focus on a leadership position in the digital space.

Regulatory

FWD Philippines is regulated by the Insurance Commission of the Philippines, a government agency under the Department of Finance and the principal regulator of the Philippines' insurance industry. The Philippines' life and non-life insurance companies are governed by the Insurance Code (Republic Act No. 10607) and its related regulations. Up to 100 per cent. foreign ownership is permitted in the form of joint ventures, locally incorporated companies or branch offices.

A new foreign insurer must have paid-up capital of at least PHP one billion. The Insurance Commissioner may, as a pre-licencing requirement, in addition to the paid up capital stock, require contributed surplus funds of not less than PHP100 million. Existing insurance companies must also comply with the staggered increase in minimum net worth, which includes paid-up capital, retained earnings, unimpaired surplus, and revaluation of assets.

The risk-based capital solvency requirements were introduced by the Insurance Memorandum Circular Nos 6-2006 (Life Insurance) and 7 2006 (Non-Life Insurance) in addition to the minimum capital and net worth requirements mentioned above. Under the regulations, insurers in the Philippines must maintain a risk-based capital solvency ratio of at least 100 per cent.

SINGAPORE

Business

The business in Singapore commenced operations in 2005 as Shenton Insurance Private Limited, and was previously a wholly owned subsidiary of Parkway Holdings Limited in Singapore. The company was issued a restricted general insurance licence to write group medical insurance business. The Group acquired management control of Shenton Insurance Private Limited in April 2016 and renamed the company FWD Singapore Pte. Ltd.. In conjunction with the acquisition, the Group also applied for and was granted a composite licence by the regulator in Singapore, which allows the company to write all types of individual life business and general insurance business, as well as group insurance business.

Prior to the acquisition by the Issuer, FWD Singapore wrote only group medical insurance products, and group insurance products continued to be the dominant product category post-acquisition. FWD Singapore expanded into both general insurance and life insurance with new products in September 2016, and plans to further develop these product lines as well as enhance its group insurance product offerings. In 2018, FWD Singapore maintained market leadership in the direct to customer space for both travel insurance and life insurance and established the Innovation Center, testing for claims processing and fraud detection.

The following table shows certain operating data for FWD Singapore for the dates indicated:

	Year ended 31 December		
	2016	2017	2018
	(U.S.$ millions, except VNB margin)		
Annual premium equivalent	0.1	7.8	7.9
Gross written premiums[(1)]	40.1	84.0	69.5
Value of new business	0.03	0.4	3.1
VNB margin (per cent.)	22.5	4.8	39.5
Profit for the year[(2)]	(12.1)	(46.8)	(35.9)
Operating Profit[(3)]	(12.1)	(35.4)	(37.5)

Notes:

(1) Data is for FWD Singapore without taking into account the Issuer's equity ownership thereof. Gross written premium results represent the full calendar year, not the period post acquisition by the Group.

(2) Before intercompany eliminations. The loss for the year ended 31 December 2016 is for the period from 16 April to 31 December reflecting the acquisition date of 16 April 2016.

(3) Operating profit is a non-GAAP measure and is calculated by excluding certain non-recurring items, including realised gains and losses, from IFRS pre-tax income or loss.

Products

The following table shows the product mix for FWD Singapore on a GWP basis for the years indicated:

	Year ended 31 December		
	2016	2017	2018
Non-participating life insurance products	0.1%	37.6%	1.2%
Group insurance products	97.9%	50.8%	68.8%
Individual general insurance products	2.0%	11.6%	30.0%

Distribution

Prior to the acquisition by the Issuer, FWD Singapore distributed its group medical products solely through sales staff. Post-acquisition, FWD Singapore has expanded its distribution to direct to customer through an online sales portal for individual life and general insurance products, and has also expanded into the broker distribution market for its group insurance products. Currently FWD Singapore has no tied agents or bank partners.

Regulatory

FWD Singapore is regulated by the Monetary Authority of Singapore (the "MAS") as a licenced direct insurer under the Insurance Act, Chapter 142 of Singapore (the "IA") in respect of both life and general insurance business. The MAS regulates and supervises licenced insurers in Singapore. The insurance regulatory framework consists mainly of the IA and its related regulations, as well as the relevant notices, guidelines, circulars and practise notes issued by the MAS.

FWD Singapore is required at all times to maintain paid-up ordinary share capital of at least SGD 10 million, and to satisfy a risk-based fund solvency requirement in respect of each insurance fund it establishes under the IA. FWD Singapore must also satisfy its capital adequacy requirement, which is that its financial resources must not be less than the greater of:

(a) the sum of:

  (i) the aggregate of the total risk requirement of all insurance funds established and maintained by FWD Singapore under the IA; and

  (ii) the total risk requirement arising from its assets and liabilities that do not belong to any insurance fund established and maintained under the IA; or

(b) a minimum amount of SGD 5 million.

FWD Singapore is required to immediately notify the MAS when it becomes aware that it has failed, or is likely to fail, to comply with the fund solvency requirement or capital adequacy requirement described above, or that a financial resources warning event has occurred or is likely to occur. A "financial resources warning event" means an event which results in the financial resources of FWD Singapore being less than the higher of (i) 120 per cent. of the amount calculated in accordance with paragraph (a); or (ii) the minimum amount in paragraph (b) above.

In order to align the framework with international standards and best practise, and in light of the evolving market developments, the MAS has been examining the possible adoption of a new risk-based capital adequacy framework. The key objectives are to enhance policyholder protection, observe international standards and best practises and to ensure insurers can perform their economic and social role on a sustainable basis. To date, the MAS has released three consultation papers while conducting quantitative impact studies to collect industry feedback to be reflected in the new risk-based capital adequacy framework. The MAS is working with the industry on the implementation date of the new framework.

REGULATORY

In addition to regulatory oversight of each of the regulated entities within the Group as described with respect to each relevant jurisdiction, the Group is also subject to group supervision by the Insurance Authority. The Insurance Authority replaced the Office of the Commissioner of Insurance as the regulator of insurance companies with effect from 26 June 2017. The Insurance Authority is the regulatory body that administers the Hong Kong Insurance Ordinance. The principal functions of the Insurance Authority are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry. The Insurance Authority has distributed a draft group wide supervision framework to applicable insurers for a consultation period commencing on May 2019 with potential implementation in 2020.

PRICING

The premium rates that the Group charges for its life insurance products are determined by a number of factors, including product design, profit targets and competition. The Group bases its calculations on assumptions with respect to expected mortality and morbidity rates, persistency rates, investment returns, commissions and allowances, administrative expenses and inflation. These assumptions are derived primarily from the Group's own experience, as well as broader industry experience and information supplied to it by reinsurers, where appropriate.

The Group's non-life premium rates are based on assumptions with respect to loss frequency and severity, investment returns, commissions and allowances, administrative expenses and inflation and information supplied by its reinsurers.

COMPETITION

The competitive landscape differs widely by geographical market, and most of the Group's geographic markets are concentrated, with the top five companies having over a 60 per cent. share of the market in South East Asia. In Japan, the Group faces competition in the Japanese life insurance market from both domestic and foreign-owned life insurance companies and from large domestic financial service providers that either have their own insurance subsidiaries or enter into co-operative arrangements with major insurance companies. The Group also faces competition from some state-owned entities, including Japan Post Insurance, which is held by Japan Post Holdings.

Leading market participants are primarily either regional or multi-national insurance companies, local domestic entities or subsidiaries of banks and other financial institutions. Subsidiaries of European and North American life insurance groups that operate in the Asia Pacific region tend to operate in many of the major markets in the Asia Pacific region, and some currently have top 10 market shares in a few major markets. In addition, AIA, which is based in Hong Kong, has a significant presence across a number of markets in the Asia Pacific region. Many local domestic life insurers in the Asia Pacific region remain primarily focused on their home market, though there has been increased activity over the past several years by major Japanese and Korean life insurers to diversify into other markets in Asia. In certain countries with continued foreign ownership restrictions, the life insurance market is dominated by local domestic insurers or by joint venture entities with a local conglomerate.

The Group believes that insurers compete on a number of factors, including service, product features, price, financial strength ratings and other indices of financial health, marketing methods and name recognition. Given the wide array of relevant factors, insurance companies compete in different ways, with a competitive advantage in one individual area potentially resulting in a competitive disadvantage in another. Some of the Group's competitors may offer a broader range of insurance products, may have more competitive pricing or have higher financial strength ratings or better name recognition. Some may also have greater financial resources. Nonetheless, on an aggregate level, the Group's differentiated strengths and strategies position us well for growth.

The Group expects that competition in the Asia Pacific region may increase if markets deregulate, allowing increased foreign competition as global life insurance groups expand their presence in the Asia Pacific region and local domestic insurers diversify their operations outside of their home markets.

INVESTMENTS

Overview

The Group invests the premiums and other income generated from its insurance businesses in accordance with its key investment objectives as defined by the Group's Risk Committee ("RC"). The Group's investment philosophy is to maintain a balanced asset portfolio that generates a stable investment return in accordance with its stated investment objectives and strategy. The Group's investment process is subject to robust management oversight by RC and the Board of Directors.

The Group seeks to optimise its investment portfolio with a focus on investment grade fixed income securities, along with public equity investments to support its traditional participating life insurance products. The Group believes that this approach enables it to maintain a good level of liquidity and financial flexibility. As of 31 December 2018, the Group's investment portfolio (excluding investments supporting investment linked contracts under which policyholders assume the investment risk) comprised U.S.$10,543.8 million in investment assets, with 79 per cent. of its assets comprising fixed income securities. Within the Group's fixed income portfolio, approximately 5 per cent. of the securities were rated below investment grade. For the years ended 31 December 2017 and 31 December 2018, the Group had investment income of U.S.$140.1 million and U.S.$195.4 million, respectively.

Investment Management and Objectives

The RC has primary responsibility for overseeing the investment of all the assets (other than operating assets) within the risk guidelines set by the Board of Directors. See "— *Risk Management*". Pursuant to the Group's investment philosophy, RC has formulated three key investment objectives: (i) maintain adequate solvency ratios and liquidity levels; (ii) maintain stable and consistent earnings on an IFRS basis and (iii) create long-term value without exceeding the Group's risk capital limits.

The RC is supported by the Investment Committee ("IC") and the Asset Liability Management Committee ("ALMCO"), which are management committees established to provide oversight of the Group's investments and asset and liability management. To meet the Group's investment objectives, RC reviews and approves the Group's investment strategy, asset allocation, investment mandates and guidelines and advises the investment management unit. In doing so, the RC employs strategic asset allocation ("SAA") and tactical asset allocation ("TAA") frameworks.

The SAA framework serves as an indicative benchmark for asset allocation, which RC believes will best enable the Group to achieve its three key investment objectives. The SAA prescribes a high allocation to bonds in order to optimise portfolio returns with stable income, mitigate interest rate risks associated with long term insurance liabilities and maintain liquidity even in stressed scenarios; and a lower allocation to equity investments to further support long-term portfolio returns while ensuring easy divestment to support local solvency under stressed scenarios. The SAA allows limited flexibility to pursue other investment initiatives for asset-liability management purposes, yield enhancement or to provide ready liquidity in the form of cash or cash equivalents.

The TAA framework sets indicative ranges for asset allocation to provide investment managers with additional flexibility to tactically adjust exposure to certain asset classes in light of current market trends. RC believes this framework provides the Group's investment managers the ability both to capture upside as well as to mitigate downside risks in line with movements in the market.

As of the date of this Offering Circular, the only material change to the investment mandate or guidelines followed by the businesses within the Group since the Group's inception is that FWD Thailand moved the management of its domestic fixed income and domestic equity investments in-house in 2016. FWD Thailand and FWD Fuji Life both use PineBridge to manage their foreign currency fixed income investments.

Asset and Liability Management

The Group employs a prudent asset and liability management strategy to manage its duration gap (the difference between liability duration and asset duration in the Group's outstanding product and investment portfolios). FWD Thailand's duration gap decreased from approximately 2.4 years as of 31 December 2017 to approximately 1.4 years as of 31 December 2018, due to the increase in interest rates during the first half of 2018. To manage the duration gap, FWD Thailand has increased its investments in accreting deposits and bond forwards, and is in the process of revamping some of its interest sensitive products. The duration gap is quite sensitive to the absolute level of interest rates and would widen if interest rates fall, and narrow if interest rates increase.

Investment Portfolio

In keeping with the SAA and TAA frameworks, the Group's investment portfolio is composed predominantly of government bonds, which represented 55 per cent. of the Group's investment portfolio (excluding investments supporting investment linked contracts under which policyholders assume the investment risk) as of 31 December 2018, followed by corporate bonds and then other asset classes. As of 31 December 2018, approximately 5 per cent. of the Group's fixed income portfolio was rated below investment grade. The investments below investment grade arise primarily due to the fact that Thailand, Indonesia and the Philippines all have international sovereign debt ratings of BBB; as a result, most corporate bonds issued in these markets are below investment grade on an international rating scale. The following table sets forth the Group's total investment portfolio by asset class as of the dates indicated:

	As of 31 December 2017		As of 31 December 2018	
	(U.S.$ millions)	(% of total)	(U.S.$ millions)	(% of total)
Government bonds	6,399.7	70.1	5,807.9	55.1
Corporate bonds	1,415.8	15.5	2,546.9	24.2
Public equities and mutual funds	560.0	6.1	807.2	7.7
Structured equities	248.3	2.7	499.1	4.7
Investment property(1)	0.0	0.0	305.8	2.9
Accreting deposits	227.0	2.5	270.4	2.6
Policy loans and other loans	271.1	3.0	301.1	2.8
Private Equity	6.1	0.1	3.6	0.0
Other assets	1.9	0.0	1.8	0.0
Total investments(2)	9,129.9	100.0	10,543.8	100.0

Notes:

(1) Acquisition of investment property and land in Japan.

(2) Excluding investments supporting investment linked contracts under which policyholders assume the investment risk.

Fixed Income Investments

As of 31 December 2018, 79 per cent. of the Group's investment portfolio (excluding investments supporting investment linked contracts under which policyholders assume the investment risk) was composed of fixed income investments.

The following table sets forth the breakdown of the Group's fixed income investments by investment ratings as of the dates indicated:

	As of 31 December 2017		As of 31 December 2018	
	(U.S.$ millions)	(% of total)	(U.S.$ millions)	(% of total)
AAA	283.1	3.6	277.3	3.3
AA	438.3	5.6	338.9	4.1
A	4,329.9	55.4	4,021.2	48.1
BBB	2,464.4	31.6	3,331.9	39.9
Below BBB	299.7	3.8	385.5	4.6
Total fixed income investments	7,815.4	100.0	8,354.8	100.0

As of 31 December 2018, the Group's fixed income investments were concentrated in Japanese and Thai government bonds, which represented 62 per cent. of the Group's total fixed income investment portfolio. Overall, government bonds represented 70 per cent. of the Group's total fixed income investment portfolio at 31 December 2018.

RISK MANAGEMENT

The core of the Group's business is accepting, pooling and managing risk for the benefit of its policyholders. The Group believes that the risks it has undertaken are backed by appropriate levels of capital to support the ongoing business and protect policyholders. While the Group aims to achieve the most efficient capital structure, it seeks to do so within acceptable levels of risk without compromising either financial strength or the Group's requirement for appropriate returns.

The Group manages its risk profile through the RC, which is supported by the IC and ALMCO, as well as additional working committees, including the product development committee; underwriting and claims committees for life and non-life insurance products and other departmental committees charged with reporting exceptions and with escalating key issues to the management committees of its life and non-life insurance businesses.

Risk Appetite Framework

The Group's risk appetite reflects the amount of total risk exposure that the Group is willing to accept or retain on the basis of risk-reward trade-offs in qualitative and quantitative terms that can be monitored. The risk appetite is reflective of the Group's strategy, risk capacity and its shareholders' expectations. The Board of Directors establishes the Group's risk appetite through the promulgation of qualitative risk appetite statements. These statements communicate the principals that guide the Group's selection of types of risks and establish a clear link between the Group's overall business strategy and its risk tolerances. The qualitative risk appetite statements are further broken down into more granular specific risk tolerances for the Group's key risk categories. These risk tolerances are monitored using quantitative metrics set by senior management in collaboration with the RC and are reported to the Board of Directors on a quarterly basis.

Risk Appetite Statements

The Group's current risk appetite statements are as follows:

- The Group's long-term sustainability depends upon the protection of its franchise and its relationship with customers, regulators and professional and licenced distributors.
- The Group seeks to improve the value of the business and the balance between risk and return while being adequately compensated for the risks that cannot be hedged or diversified.
- The Group will effectively manage capital and liquidity to remain able to meet its liabilities under adverse scenarios.
- The Group does not accept risks that could materially impair the reputation of the Group and requires that customers are treated with integrity.

Key Risks

The Group has identified the following key risks as part of its risk appetite framework. For each key risk, the Group establishes a number of risk monitoring metrics, each with a predetermined tolerance level and clearly defined risk ranges dictated by the movements in such metrics, to facilitate detailed monitoring of the Group's risk profile.

Reputational Risk

Reputational risks are risks of loss of franchise value due to damage to the Group's brand or reputation with customers, distributors, investors and regulators. The Group's consideration of reputational risk is a key element in its operational risk management.

Liquidity Risk

Liquidity risk refers to the risk that the Group will have insufficient cash available to meet its payment obligations to counterparties as they fall due. The Group is subject to liquidity risk on insurance products that permit surrender, withdrawal or other forms of early termination for a cash surrender value. Liquidity risk is managed through insurance product design and by matching near-term expected asset and liability cash flows.

Investment Risks

Investment risks comprise interest rate risk and equity price risk. Interest rate risk predominantly arises from any difference between the tenor of the Group's assets and liabilities, or any difference between the return on investments and the return required to meet the Group's commitments, primarily its insurance liabilities. This risk increases for products with inherent interest rate options or guarantees. The Group seeks to manage interest rate risk by ensuring appropriate insurance product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of investment assets with the duration of insurance liabilities. For certain in-force policies, the Group is able to adjust policyholder dividends, with consideration given to, amongst other things, the earned yields on investments and policyholders' reasonable expectations.

Equity price risk arises from changes in the market value of equity securities and equity funds. The Group believes that investment in equity assets on a long-term basis will provide diversification benefits and return enhancements, which can improve the investment portfolio's risk adjusted returns. Equity price risk is managed by diversifying and limiting concentrations in the Group's equity investments.

Insurance Risk

Insurance risk includes the risks inherent in the design of insurance products, including lapse risk and claims risk. Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience assumed in product pricing. It includes the potential financial loss incurred due to early termination of policies or contracts in circumstances where the acquisition costs incurred are no longer recoverable from future revenue. The Group carries out regular reviews of persistency experience, and the results are reflected in new product pricing and in-force product management. In addition, many of the Group's products include surrender charges that entitle it to additional fees upon early termination by policyholders, which reduces exposure to lapse risk.

Claims risk refers to the possibility that the frequency or severity of claims arising from insurance products exceeds the levels assumed when the products were priced. The Group seeks to mitigate claims risk by conducting regular reviews of mortality and morbidity experience, and reflecting this experience in new product pricing. The Group also manages claims risk by adhering to its underwriting and claims management policies and procedures. Finally, the Group uses reinsurance solutions to help reduce concentration and volatility risk, especially with large policies or new risks, and as a protection against catastrophes.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel and systems or from external events. The Group's business depends on the accurate and efficient processing and reporting of a high volume of complex transactions across numerous and diverse products and services. Any weakness in these internal processes, systems or security could have an adverse effect on the Group's results and on its ability to deliver appropriate service to customers during the affected period. The Group has established robust processes and procedures to control operational risk by identifying, assessing, monitoring and developing strategies to mitigate the risks.

Hedging

The Group follows a clearly defined hedging strategy in respect of its foreign exchange exposures. All foreign exchange related asset and liability mismatches are reviewed at RC meetings, and appropriate foreign exchange hedges are put into place in order to ensure local statutory solvency is maintained at an acceptable level.

FWD Thailand invests in certain assets denominated in U.S. dollars, while all of its liabilities are denominated in Thai baht, and uses forward currency contracts to fully hedge the currency mismatch between its liabilities to policyholders and its assets.

FWD Fuji Life invests in certain assets denominated in foreign currencies, while all of its liabilities are denominated in Japanese yen, and uses forward currency contracts to fully hedge the currency mismatch between its liabilities to policyholders and its assets.

Other operating companies within the Group have no foreign exchange related asset and liability mismatches.

Reserves

For all of its product lines, the Group establishes, and carries as liabilities, actuarially determined amounts to meet its future obligations under its insurance policies. In accordance with IFRS, the Group's reserves for financial reporting purposes are based on actuarially recognised methods for estimating future policy benefits and claims. The Group expects these reserve amounts, along with future payments on policies and contracts, and investment earnings on these amounts, to be sufficient to meet its insurance policy and contract obligations. The amount of the Group's consolidated insurance contract liabilities as of 31 December 2018 was U.S.$11,747.5 million.

The Group establishes the liabilities for obligations for future policy benefits and claims based on assumptions that are uncertain when made. The Group's assumptions include mortality, morbidity, policyholder persistency, administrative expenses, investment returns and inflation. The Group's actual experience may be different from its assumptions, and as a result, it cannot determine precisely the amounts that it will ultimately pay to settle these liabilities or the timing of these payments. These amounts may vary from the estimated amounts, particularly when these payments do not occur until well into the future. See "*Risk Factors—Risks Relating to the Group's Business—Actual experience may differ from assumptions used in establishing reserves and in product pricing, which may adversely impact the Group's profitability*". The Group evaluates its liabilities periodically, based on changes in the assumptions used to establish the liabilities, as well as its actual policy benefits and claims experience.

Solvency ratio

The Life Insurance Act of Thailand (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Thailand. The Life Insurance Act of Thailand requires FWD Thailand to maintain a required minimum solvency margin of 100 per cent.

Under the Insurance Business Act of Japan, the Commissioner of the FSA has the authority to set standards such as the solvency margin ratio for measuring the soundness of the management of insurance companies in Japan, to provide for better policyholder protection under a system of prompt corrective action. The solvency margin ratio is calculated by dividing the total amount of solvency margin by a quantified measure of the total unforeseeable risks borne by a company, all on a consolidated as well as on a non-consolidated basis. Insurance companies with solvency margin ratios of 200 per cent. or higher are considered sound and do not require prompt corrective action. If the ratio falls below 200 per cent., the Commissioner of the FSA may order the insurer to submit and implement a business improvement plan that will reasonably ensure the soundness of the management.

The Insurance Code and other insurance regulations set minimum capital requirements that an insurer must meet in order to be authorised to carry on insurance business in or from the Philippines. The Insurance Code requires FWD Philippines to maintain minimum net admitted assets of at least PHP 1 billion at all times. In addition, Insurance Commission Circular Letter 2016-68 (Amended Risk-Based Capital Framework) prescribes that the risk-based capital ratio (total available capital over its risk-based capital requirement or total required capital) be at least 125 per cent. at every year-end.

The Government of Indonesia, through OJK, sets and monitors capital requirements and other regulatory requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Indonesia. MOF Regulation 53 requires FWD Indonesia to maintain a minimum solvency margin of at least 120 per cent. Under OJK Regulation 71/2016, the OJK may require FWD Indonesia to maintain a higher solvency margin after taking into account its risk profile, and stress test results.

The Singapore Insurance Act (Chapter 142) and other relevant Regulations set the minimum capital requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Singapore. Regulation issued under the Insurance Act (Chapter 142) requires FWD Singapore to maintain minimum paid-up capital of at least SGD10million. In addition, The Insurance Act (Chapter 142) prescribes that the risk-based capital ratio (company net worth over its risk-based capital requirement) be at least 100 per cent. at every period-end.

The Cayman Islands Insurance Law 2010 (Law 32 of 2010) sets the minimum capital requirements that an insurance company must meet in in order to carry on an insurance business in or from the Cayman Islands. The

Cayman Islands Insurance Law 2010 (Law 32 of 2010) requires FWD Reinsurance Ltd to maintain minimum paid up capital of at least U.S.$400,000. In addition, FWD Reinsurance Ltd, in consultation with CIMA, has agreed to hold a minimum solvency margin of 400 per cent. calculated in accordance with Japanese solvency margin regulations.

The Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the relevant local regulations and "required capital" as the minimum required margin of solvency calculated in accordance with the relevant local regulations. The solvency ratio is the ratio of total available capital to required capital.

The Group complies with all regulatory capital requirements. The primary insurance regulators for the Group's subsidiaries are:

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Public Company Limited	OIC	Life Insurance Act of Thailand
FWD Life Insurance Corporation	Insurance Commission of the Philippines	The Insurance Code of the Philippines 2013
PT FWD Life Indonesia	OJK	Minister of Finance Regulation No. 53/PMK.010/2012
FWD Singapore Pte. Ltd.	MAS	Insurance Act (Cap. 142)
FWD Fuji Life Insurance Company, Limited	Financial Services Agency ("FSA")	Insurance Business Act
FWD Reinsurance Ltd.	Cayman Island Monetary Authority ("CIMA")	The Insurance Law 2010 (Law 32 of 2010)

The capital positions of the Group's principal operating companies at 31 December 2018 and 31 December 2017 are as follows:

	31 December					
	2018			2017		
	Available Capital	Required Capital	Solvency Ratio	Available Capital	Required Capital	Solvency Ratio
	U.S.$'000		%	U.S.$'000		%
FWD Life Insurance Public Company Limited ("FWD Thailand")	323,695	134,190	241	397,416	140,078	284
FWD Life Insurance Corporation ("FWD Philippines")	14,755	7,256	203	22,207	1,712	1,297
PT FWD Life Indonesia ("FWD Indonesia")	8,549	2,871	298	7,675	2,218	346
FWD Singapore Pte. Ltd. ("FWD Singapore")	25,144	6,755	372	32,122	5,027	639
FWD Fuji Life Insurance Company, Limited ("FWD Fuji Life")	878,389	84,195	1,043	263,871	32,039	824
FWD Reinsurance Ltd. ("FWD Re")	70,831	3,030	2,338	18,548	542	3,405

Sensitivity analysis

The Group regularly performs sensitivity analyses to measure the potential effect of certain market developments on its local solvency ratio.

INFORMATION TECHNOLOGY

All core business processes of the Group are supported by standard and robust information technology systems and infrastructure. The Group's distributors are supported by a point-of–sales tool that covers customer financial needs analysis, premium quotations, electronic submission of applications, automated underwriting, e-signature and straight through processing, and is based on advanced mobile technology. All after sale customer service, including claims and contract amendments, is supported by web-based portals, online chat and mobile services.

LEGAL AND REGULATORY PROCEEDINGS

From time to time, businesses within the Group are involved in litigation in the ordinary course of their business activities, such as disputes in relation to contested insurance claims.

Although the Group cannot predict the outcome or impact of any pending or future arbitration, litigation or regulatory proceedings, the Group does not believe that it is currently, nor has it been during the 12 months preceding the date of this Offering Circular, involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Group is aware) that may have, or have had, a significant effect on its business, results of operations or financial position.

EMPLOYEES

As of 31 December 2018, the Group had 3,780 employees.

MANAGEMENT

Overall management of the Group is conducted by the Board of Directors of the Issuer. The Board of Directors formulates the overall strategy of the Group, monitors the Group's financial performance and maintains corporate governance frameworks in each subsidiary. Daily operations and administration are delegated to the management of each of the Issuer's subsidiaries.

The members of the Board of Directors of the Issuer as at the date of this Offering Circular are as follows:

Name	Age	Position
The Honourable Ronald Arculli	80	Chairman and Director
Damis ("Dennis") Jacobus Ziengs	70	Vice Chairman and Director
Peter A. Allen	64	Director
John Baird	50	Director
Martina Chung	60	Director
Guido Fürer	55	Director
Kyoko Hattori	44	Director
Dirk ("Dick") Sluimers	66	Director
Huynh Thanh Phong	53	Director and Chief Executive Officer
Professor Frederick Ma Si-Hang	67	Independent Non-Executive Director

SENIOR MANAGEMENT

The Issuer's senior management is responsible for the day-to-day management and operation of the Group's businesses. The members of senior management of the Issuer as at the date of this Offering Circular are as follows:

Name	Age	Position
Huynh Thanh Phong	53	Chief Executive Officer
Robert Schimek	54	Chief Operating Officer
Craig Alan Merdian	59	Chief Financial Officer
Alvin Chooi	46	Chief Strategy Officer
Maree Higgins	52	Chief Human Resources Officer
Binayak Dutta	46	Chief Distribution Officer and Managing Director, Emerging Markets
Amy Hoe	56	Chief Technology & Operations Officer
Tim Oliver	55	Chief Commercial Officer
Boon-Kee Tan	46	Chief Business Officer
Julian McQueen Lipman	50	Chief of Staff
Lee King Chi Arthur	59	New Markets & Corporate Governance, South East Asia Chairman

BOARD COMMITTEES

Risk Committee

The Issuer's Risk Committee advises the Board of Directors on the Group's risk appetite and risk management framework, reviews and approves risk policies and related contingency plans and oversees the Group's overall compliance with such plans. The RC also reviews and approves the Group's SAA, monitors implementation of the SAA and TAA and monitors significant risk issues. The RC is supported by the IC and the ALMCO, which are the Group's management committees established to provide oversight of the Group's investments and asset and liability management. The current members of the RC are Guido Fürer (Chairman), the Honourable Ronald Arculli, Peter A. Allen, John Baird and Martina Chung.

Compensation Committee

The Issuer's Compensation Committee is responsible for reviewing and making recommendations to the Board of Directors concerning the Group's remuneration policy, establishing procedures for implementing the remuneration policy across the Group, evaluating the implementation thereof and reviewing and approving certain specific remuneration packages, including those of the Directors and Senior Executives. In doing so, the Compensation Committee consults with the Chairman of the Board of Directors and the Group CEO and coordinates with the RC to ensure compensation packages do not encourage Senior Executives to take excessive risks. The current members of the Compensation Committee are the Honourable Ronald Arculli (Chairman), Guido Fürer, Kyoko Hattori, Professor Frederick Ma Si-Hang and Martina Chung.

Audit Committee

The Issuer's Audit Committee oversees the Group's external independent auditors (presently Ernst & Young) as well as the Group's internal audit function, and reviews and approves the annual audit work-plans for both the independent auditors and internal audit. The Audit Committee provides independent assurance on the design and effectiveness of the Group's overall system of internal control and monitors the integrity of the Group's accounts, financial systems and reports. The Audit Committee provides regular reports to the Board of Directors on audit results and findings. The current members of the Audit Committee are Professor Frederick Ma Si-Hang (Chairman), Dennis J. Ziengs, Peter A. Allen, John Baird and Dirk Sluimers.

COMPENSATION OF DIRECTORS

For 2017 and 2018, the total remuneration of all Directors was U.S.$2,477.1 thousand and U.S.$2,728.0 thousand, respectively.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that neither the Issuer nor any other persons involved in the offering of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

CAYMAN ISLANDS

Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands, and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands. Stamp duty will be payable on any documents executed by the Issuer if any such documents are executed in or brought into the Cayman Islands or produced before the Cayman Islands courts.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and can expect to obtain an undertaking from the Governor in Cabinet of the Cayman Islands:

1. that no law that is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and
2. in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
   (a) on or in respect of the shares, debentures or other obligations of the Issuer; or
   (b) by way of the withholding in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Issuer will be for a period of 20 years from the date of the issuance of the undertaking.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

THE PROPOSED FINANCIAL TRANSACTIONS TAX (THE "FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "**foreign passthru payment**" and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "**foreign passthru payments**" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of

FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

UBS AG Hong Kong Branch, incorporated in Switzerland with limited liability and J.P. Morgan Securities plc have, pursuant to a Subscription Agreement dated 4 July 2019 among the Issuer and the Joint Lead Managers, agreed severally and not jointly with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at the Issue Price (100.00 per cent. of their principal amount). Any subsequent offering of the Notes to investors may be at a price different from the Issue Price. The Issuer has agreed to pay the Joint Lead Managers certain fees and an underwriting commission, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes and to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and any of the Joint Lead Managers or any affiliate of theirs is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by them or such affiliate on behalf of the Issuer in such jurisdiction.

The Joint Lead Managers and certain of their affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. The Joint Lead Managers and their respective affiliates may also purchase the Notes for their own accounts. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity as investment advisers) a broad array of investments and actively traded debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve the Notes or other securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, may be entered into at the same time in the secondary market and may be carried out with counterparties that are also purchasers, holders or sellers of the Notes.

Certain private banks will be paid a commission in connection with the distribution of the Notes to their clients, which will be based on the principal amount of the Notes so distributed.

OTHER RELATIONSHIPS

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time.

UNITED STATES

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of such Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S.

UNITED KINGDOM

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "Professional Investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "Professional Investors" as defined in the SFO and any rules made under the SFO.

SINGAPORE

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "**Financial Instruments and Exchange Act**"), and accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes and no such limitation is made hereby. Each Joint Lead manager has represented, warranted and undertaken that the public of the Cayman Islands will not be invited to subscribe for the Notes.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through Euroclear and Clearstream. The securities codes for the Notes are as follows:

   Common Code: 202243436

   ISIN: XS2022434364

2. **Legal Entity Identifier**: The legal entity identifier of the Issuer is 254900DONRZV54KDYN04.

3. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Notes. The issue of the Notes was authorised by written resolutions of the Board of Directors of the Issuer dated 1 July 2019.

4. **Listing of the Notes**: Application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors (as defined in the SFO) only, and such permission is expected to become effective on or about 10 July 2019.

5. **No Material Adverse Change**: There has been no material adverse change in the financial or trading position or prospects of the Issuer since 31 December 2018.

6. **Litigation**: Except as disclosed in this Offering Circular, the Issuer is not involved in any governmental, legal or arbitration proceeding that is material in the context of the issue of the Notes, and the Issuer is not aware that any such proceedings are pending or threatened.

7. **Available Documents**: Copies of the latest annual report and the most recently published consolidated financial statements of the Issuer may be obtained free of charge, and copies of the Agency Agreement (which includes the form of the Global Note Certificate) and the Deed of Covenant will be available for inspection at the specified office of The Hongkong and Shanghai Banking Corporation Limited at 30th Floor, HSBC Building, 1 Queen's Road Central, Hong Kong during normal business hours, so long as any of the Notes is outstanding.

9. **Auditor**: The audited consolidated financial statements of the Issuer for the years ended 31 December 2017 and 31 December 2018 have been audited by Ernst & Young, Certified Public Accountants.

INDEX TO FINANCIAL STATEMENTS

References to page numbers in the following financial statements refer to the original page numbers of the audited financial statements and cross-references to page numbers are to such original page numbering.

Audited Financial Statements

FWD Group Limited

(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2017

安永

Building a better working world

FWD GROUP LIMITED

CONTENTS

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Independent auditor's report
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion
We have audited the consolidated financial statements of FWD Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 4 to 99, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the International Ethics Standards Board for Accountants ("IESBA"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matters (continued)

Key audit matter #1	How our audit addressed the key audit matter
Acquisition of business in Japan	
The Group acquired 100% interest in FWD Fuji Life Insurance Company Limited ("FWD Japan", previously known as AIG Fuji Life Insurance Company, Limited) for a consideration of US$330M on 30 April 2017. The Group has determined the acquisition qualifies as a business combination as defined under IFRS3, for which the purchase price is to be allocated between the fair value of assets and liabilities acquired, including intangible assets and contingent liabilities, and with recognition of goodwill as the residual amount. Management's approach towards measuring fair value of insurance contracts consists of recognizing (i) insurance contract liabilities on a valuation basis consistent with valuation rules applied to existing insurance contracts within the Group and (ii) an intangible asset representing value of business acquired ("VOBA"), which in turn is based on the actuarial concept of value of in-force business ("VIF"). The net amount of those two balance sheet items represents fair value of the insurance contracts acquired. The fair value of assets and liabilities acquired amounts to a total of US$326M, which includes VOBA of US$136M. The resulting amount of goodwill recognized in the business combination equals US$4M. Management's process to perform the purchase price allocation ("PPA") is complex, especially with respect to valuation of insurance contracts. Significant judgement is required when setting assumptions for the calculation of VIF, including those relating to mortality, morbidity, persistency, expense, investment returns and risk discount rates. In addition, fair value of other assets and liabilities acquired, the corresponding deferred tax effects and the residual amount of goodwill needed to be determined. The acquisition of FWD Japan is considered a key audit matter because it is a significant transaction for the Group, and because of the complex nature of the PPA, in particular determining fair value of the insurance contracts acquired.	Our audit has been performed with the assistance of our internal actuarial specialists with respect to insurance contract liabilities and VOBA. Within that context, our audit procedures included obtaining an understanding of the features and risk coverage of in-force insurance contracts, validating the accuracy of underlying policy data, verifying the appropriateness of actuarial models, assessing the reasonableness of actuarial assumptions used in the calculation by reference to the Company's historical data and applicable industry experience and the evaluation of calculation outputs. Specifically for auditing VOBA, our audit procedures also included assessing the appropriateness and reasonableness of the risk discount rate and other assumptions used in the calculation of VIF, considering the economic conditions in Japan and the risk profile of the in-force insurance contracts. Other key audit procedures of the PPA included checking the fair value of the other identified assets acquired and liabilities assumed on the date of acquisition, verifying the consideration paid against bank statements and recomputing the resulting amount of goodwill. For the purpose of subsequent measurement, we assessed the appropriateness of VOBA amortization driver and reviewed the methodology used in goodwill impairment testing.

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Key audit matters (continued)

Key audit matter #1 (continued)	How our audit addressed the key audit matter
Acquisition of business in Japan (continued)	
The Company's disclosures about the acquisition are included in Notes 2.3.1, 3(c), 3(g), 6(a), 13, and 14, which detail the valuation methodology and the amounts of VOBA and goodwill recognised during the year.	

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Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #2	How our audit addressed the key audit matter
Bancassurance agreement in Thailand – measurement of intangible asset	
During the year, the Group renewed the bancassurance agreement between FWD Thailand and Thai Military Bank (“TMB") for a period of 15 years to gain exclusive access to the distribution network of TMB and the Group recorded an intangible asset of US$645M as at 31 December 2017, with amortization based on forecasted Value of New Business ("VNB") over the contract period of 15 years. The accounting treatment of the upfront fees paid under the bancassurance agreement is considered to be a key audit matter, because the amount involved is significant to the financial statements and measurement of the intangible asset requires significant management judgement, with respect to the recoverability of the intangible asset and the choice of an appropriate amortization basis that reflects the expected pattern of consumption of economic benefits of the Group and the reasonableness of projected VNB amounts that determine the annual amortization charge of the intangible asset. The Company's disclosures about the bancassurance agreement are included in Note 14, which details the amounts of recognized intangible asset and the corresponding amortisation.	Our audit procedures included the review of the detailed terms and conditions of the agreement, evaluating whether criteria set out in IAS38 for recognition of an intangible asset are met, in particular regarding the expected future benefits generated by the asset, assessing the amortization basis and evaluating the projected VNB amounts in light of the business plan and commercial targets agreed with TMB.

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Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #3	How our audit addressed the key audit matter
Bancassurance agreement in Thailand – uncertain tax position	
In the 2017 financial statements, the Group determined its current and deferred income tax position relating to FWD Thailand on the basis that the upfront fee paid to TMB can be amortized on a straight-line basis over the 15-year contract period for income tax purposes. There is uncertainty as to whether the Tax Authority in Thailand accepts amortisation of the expense or whether it must be deducted entirely in the year it was paid. Management is of the opinion that it is probable that amortization of the expense will be accepted by the Tax Authority, but discloses the uncertainty around that tax position in the financial statements. We consider the uncertain tax position relating to the tax treatment of the upfront fee paid under the bancassurance agreement with TMB to be a key audit matter, given the significant potential impact on the financial statements if the Tax Authority in Thailand rejects amortization of the expense and instead imposes immediate deduction of the entire amount in the 2017 tax return. The Company's disclosures on the uncertain tax position relating to fees paid under the bancassurance agreement are included in Note 12.	Our audit procedures included reviewing management's analysis of the relevant tax rules and precedent cases, evaluating the basis for management's conclusion that it is probable amortization will be accepted by the Tax Authority, reviewing external tax specialist's advice obtained by management, reviewing correspondence with the Tax Authority in Thailand, assessing adequacy of the disclosures on uncertain tax positions, and reviewing the estimated maximum exposure disclosed. These procedures have been performed with the assistance of our internal tax specialists in Thailand.

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Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #4	How our audit addressed the key audit matter
Life insurance contract liabilities	
At 31 December 2017, the Group carried gross insurance contract liabilities of US$9,676M relating to life insurance contracts. At each reporting date, the Group evaluates the adequacy of life insurance contract liabilities, net of deferred acquisition cost ("DAC") and value of business acquired ("VOBA"), in the liability adequacy test. The Group recorded VOBA and DAC of US$133M and US$545M respectively, as at 31 December 2017. The measurement of life insurance contract liabilities is significant to our audit because the balance of life insurance contract liabilities is material to the financial statements. In addition, management's process for measuring life insurance contract liabilities and the liability adequacy test are complex and involve significant judgement relating to uncertain future outcomes of long-term insurance contracts. Economic assumptions, such as investment returns and discount rates, and non-economic assumptions, such as lapses, mortality, morbidity, persistency and expenses are key assumptions used to estimate the future outcomes of long-term insurance contracts and to measure the related liabilities. The Company's disclosures about insurance contract liabilities, DAC, and VOBA are included in Notes 3(d), 3(f), 3(g), 14, 15, 25(a), and 34 which explain the movements of insurance contract liabilities, DAC, and VOBA, and the key exposures impacting profit or loss for the year and shareholders' equity.	Our audit procedures on life insurance contract liabilities, performed with the assistance of our internal actuarial specialists, included obtaining an understanding of the features and risk coverage of insurance contracts, the validation of accuracy of underlying policy data, the verification of actuarial models, the review of methodologies and assumptions used in the measurement of liabilities by reference to the Company's historical data and applicable industry experience, with particular attention to changes in assumptions and components of life insurance contract liabilities with material fluctuations from the prior year. For a sample of contracts we recalculated the year-end liability. For new insurance products, reviewed product classification based on management's assessment of significant insurance risk. In assessing the adequacy of life insurance contract liabilities and recoverability of DAC and VOBA at year-end, we reviewed methodologies and assumptions used in performing the liability adequacy test by reference to the Company's historical data and applicable industry experience, and analysed the resulting calculations.

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Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Information other than the consolidated financial statements and auditor's report thereon
The consolidated financial statements do not include other information.

Responsibilities of the directors for the consolidated financial statements
The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Telders.

Ernst & Young

13 March 2018

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FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
REVENUE			
Gross premiums		1,981,252	694,049
Reinsurers' share of gross premiums		(145,048)	(7,774)
Change in unearned premiums		2,069	21,010
Net premiums	7	1,838,273	707,285
Fees and commission income		72,824	4,839
Net deferred commission income movement	15	(53,372)	(46)
Investment return	8	182,843	97,898
Other operating revenue		9,643	9,306
TOTAL REVENUE		2,050,211	819,282
BENEFITS, CLAIMS AND EXPENSES			
Net benefits and claims	9	(1,676,452)	(654,821)
Amortization of intangible assets	14	(37,130)	(8,693)
Net deferred acquisition cost movement	15	286,798	103,417
Finance costs		(10,862)	(11,003)
Commission and commission related expenses	10	(365,914)	(153,521)
Other operating and administrative expenses	11	(398,174)	(221,876)
TOTAL BENEFITS, CLAIMS AND EXPENSES		(2,201,734)	(946,497)
Share of gains in associate and joint venture	21	1,614	1,966
LOSS BEFORE TAX		(149,909)	(125,249)
Income tax expense	12(a)	(12,240)	(5,035)
LOSS FOR THE YEAR		(162,149)	(130,284)
Loss for the year attributable to:			
Shareholders		(160,862)	(129,565)
Non-controlling interests		(1,287)	(719)
		(162,149)	(130,284)

continued/...

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
LOSS FOR THE YEAR		(162,149)	(130,284)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Change in fair value	17.1	86,748	(11,125)
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8, 17.1	(15,964)	(13,572)
- (reversal of impairment losses)/impairment losses	17.1	-	(443)
Income tax effect	12(b)	(12,958)	4,964
		57,826	(20,176)
Cash flow hedges:			
Effective portion of changes in fair value		14,217	(17,589)
Income tax effect	12(b)	(1,172)	1,846
		13,045	(15,743)
Exchange differences on translation of foreign operations		42,741	(2,197)
		42,741	(2,197)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		113,612	(38,116)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit obligation		924	(664)
Income tax effect	12(b)	(287)	114
		637	(550)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		637	(550)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		114,249	(38,666)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(47,900)	(168,950)
Total comprehensive income attributable to:			
Shareholders		(46,761)	(168,250)
Non-controlling interests		(1,139)	(700)
		(47,900)	(168,950)

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$'000

	Notes	31 December 2017	31 December 2016
ASSETS			
Goodwill	13	53,953	60,343
Intangible assets	14	826,393	32,192
Deferred acquisition cost	15	544,719	237,955
Plant and equipment	16	27,188	16,359
Financial assets			
Available-for-sale financial assets	17.1	8,595,869	2,181,663
Financial assets at fair value through profit or loss	17.2	263,503	99,048
Loans and receivables	17.3	501,557	287,414
Derivative financial instruments	17.4	2,691	-
Reinsurance assets	25	136,799	1,687
Investment in associate and joint venture	21	49,299	46,135
Prepayments, deposits and other assets	22	204,473	83,660
Deferred tax assets	12(b)	96	8
Insurance receivables	23	297,355	48,708
Due from related parties	31(b)	97,484	63,449
Cash and cash equivalents	24	650,996	386,113
TOTAL ASSETS		12,252,375	3,544,734
LIABILITIES			
Insurance contract liabilities	25	9,675,996	2,457,180
Pension benefit obligation		6,637	2,691
Due to related parties	31(b)	21,397	17,676
Deferred commission income	15	53,214	45
Borrowings	26	248,825	246,888
Derivative financial instruments	17.4	11,126	19,603
Deferred tax liabilities	12(b)	103,267	6,939
Insurance and other liabilities	27	511,991	166,193
TOTAL LIABILITIES		10,632,453	2,917,215
EQUITY			
Issued capital	28	286	269
Share premium	28	1,360,863	861,853
Direct capital instrument	28	539,123	-
Capital redemption reserve	28	990	990
Share-based payment reserve	28	13,557	11,404
Legal reserve	28	2,981	2,553
Cash flow hedge reserve	28	(2,698)	(15,743)
Available-for-sale financial assets revaluation reserve	28	174,022	116,196
Defined benefit obligation revaluation reserve	28	(274)	(911)
Foreign currency translation reserve	28	7,931	(34,412)
Accumulated losses		(477,763)	(316,723)
TOTAL EQUITY		1,619,018	625,476
Non-controlling interests		904	2,043
TOTAL LIABILITIES AND EQUITY		12,252,375	3,544,734

Ronald Arculli

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Director

....
Director

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$'000

	Notes	Issued capital	Share premium	Direct capital instrument	Capital redemption reserve	Share-based payment reserve	Legal reserve	Cash flow hedge reserve	Available-for-sale financial assets revaluation reserve	Defined benefit obligation revaluation reserve	Foreign currency translation reserve	Retained earnings/ (accumulated losses)	Non controlling Interest	Total equity
1 January 2016		268	858,961	-	990	6,985	1,903	-	136,372	(361)	(32,190)	(186,514)	-	786,414
Issuance of shares	28	1	2,892	-	-	(2,893)	-	-	-	-	-	-	-	-
Acquisition of subsidiary		-	-	-	-	-	-	-	-	-	-	-	2,743	2,743
Change in share-based payment reserve	32	-	-	-	-	7,312	-	-	-	-	-	-	-	7,312
Total comprehensive income for the year		-	-	-	-	-	-	(15,743)	(20,176)	(550)	(2,197)	(129,565)	(719)	(168,950)
Transfer to legal reserve		-	-	-	-	-	644	-	-	-	-	(644)	-	-
Change in foreign currency translation reserve		-	-	-	-	-	6	-	-	-	(25)	-	19	-
31 December 2016	28	269	861,853	-	990	11,404	2,553	(15,743)	116,196	(911)	(34,412)	(316,723)	2,043	627,519
Issuance of shares	28	17	499,010	-	-	(4,085)	-	-	-	-	-	-	-	494,942
Issuance of direct capital instrument	28	-	-	539,123	-	-	-	-	-	-	-	-	-	539,123
Change in share-based payment reserve	32	-	-	-	-	6,238	-	-	-	-	-	-	-	6,238
Total comprehensive income for the year		-	-	-	-	-	-	13,045	57,826	637	42,741	(160,862)	(1,287)	(47,900)
Transfer to legal reserve		-	-	-	-	-	177	-	-	-	-	(177)	-	-
Change in foreign currency translation reserve		-	-	-	-	-	251	-	-	-	(398)	(1)	148	-
31 December 2017	28	286	1,360,863	539,123	990	13,557	2,981	(2,698)	174,022	(274)	7,931	(477,763)	904	1,619,922

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(149,909)	(125,249)
Adjustments for:			
Dividend income	8	(15,660)	(8,387)
Interest income	8	(124,445)	(77,950)
Net realized (gain)/loss on disposal of financial assets	8	(7,395)	(13,924)
Fair value (gain)/loss on financial assets	8	(13,438)	2,267
Depreciation of plant and equipment	16	9,103	6,052
Loss/(gain) on disposal of plant and equipment		99	(156)
Impairment on available-for-sale financial assets	8	-	407
Impairment on loan and receivables	8	488	(9)
Amortization of intangible assets	14	37,130	8,693
Finance cost		10,862	11,003
Share of (gain)/loss of associate	21	(1,614)	(1,966)
P&L impact of share-based payment	32	6,238	7,312
Net deferred commission income movement	15	53,372	46
DAC movement	15	(286,798)	(103,417)
Impairment of goodwill	13	13,361	-
Foreign exchange loss/(gain)		35,688	1,346
		(432,918)	(293,932)
(Increase)/decrease in reinsurance assets		(87,492)	(1,535)
(Increase)/decrease in prepayments, deposits and other assets		9,938	(22,557)
(Increase)/decrease in insurance receivables		(20,212)	(19,953)
(Increase)/decrease in amounts due from related parties		(34,035)	(53,239)
(Decrease)/increase in insurance contract liabilities		1,286,085	462,908
(Decrease)/increase in amounts due to related parties		3,721	852
(Decrease)/increase in insurance and other liabilities		59,806	28,331
(Decrease)/increase in accrued commissions		20,220	5,618
(Decrease)/increase in investment creditors		(4,446)	21,224
(Decrease)/increase in net pension scheme liabilities		1,565	453
Cash flows generated from operations		802,232	128,170
Dividend received from investments		15,738	7,944
Interest received		148,170	93,324
Investment expenses paid		(4,459)	(4,215)
Income tax paid		(3,080)	(1,903)
Net cash flows from operating activities		958,601	223,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	6	(330,451)	(24,690)
Acquisition of interest in associate and joint venture	21	(1,549)	(5,000)
Purchases of intangible assets	14	(678,794)	(12,349)
Purchases of plant and equipment	16	(13,596)	(9,052)
Proceeds from disposals of plant and equipment		1,221	314
Purchases of financial assets	17	(1,630,840)	(978,910)
Proceeds from disposal and maturities of financial assets		825,026	425,737
Net cash flows used in investing activities		(1,828,983)	(603,950)

continued/...

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of preference shares	28	494,942	-
Issue of direct capital instrument	28	539,123	-
Finance costs paid on bank loan and arrangement fees	26	(8,925)	(8,949)
Net cash flows from financing activities		1,025,140	(8,949)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		154,758	(389,579)
Cash and cash equivalents at beginning of the year		386,113	749,706
Cash and cash equivalents acquired	6	110,125	25,986
Effect of foreign exchange rate changes, net		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	650,996	386,113
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		563,193	144,400
Non-pledged time deposits with original maturity of less than three months when acquired		87,803	241,713
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		650,996	386,113

1. CORPORATE INFORMATION

FWD GROUP LIMITED (the "Company") was incorporated on 3 January 2013 in the Cayman Islands, with its registered office at Offshore Incorporations (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY-1205, Cayman Islands. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are to provide products and services focusing on life insurance and investment services.

In the opinion of the directors, PCGI Intermediate Holdings Limited and PCGI Holdings Limited, companies incorporated in the Cayman Islands, are the Company’s immediate and ultimate holding companies, respectively, as at the end of the reporting period. PCGI Holdings Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 14.0% (2016:14.9%) shareholder of the Company.

The financial statements were approved and authorized for issuance by the board of directors on 13 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements have been prepared under the historical cost convention, except for the re-measurement of available-for-sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value. They are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of revised standards and interpretations effective as of 1 January 2017 as described below.

(a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2017 and have no material impact for the Group:

IAS 12 Amendments	*Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*
IAS 7 Amendments	*Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative*
IFRS 12 Amendments	*Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12 – Annual Improvements to IFRS Standards 2014 – 2016 Cycle*

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) The following relevant new standards, interpretations and amendments to standards have been issued but are not effective for the financial year ended 31 December 2017 and have not been early adopted (the financial years for which the adoption is required are stated). They are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures upon them becoming effective:

IFRS 1 Amendments	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Annual Improvements to IFRS Standards 2014 – 2016 Cycle*[1]
IFRS 2 Amendments	*Amendments to IFRS 2 Share-based Payment – the Classification and Measurement of Share-based Payment Transactions*[1]
IAS 28 Amendments	*Amendments to IAS 28 – Investments in Associates and Joint Ventures - Annual Improvements to IFRS Standards 2014 – 2016 Cycle*[1]
IAS 40 Amendments	Amendments to *IAS 40 – Transfers of Investment Property*[1]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 9 Amendments	*Amendments to IFRS 9 – Prepayment Features with Negative Compensation*[2]
IAS 28 Amendments	*Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures*[2]
IFRS 16	*Leases*[2]
IFRS 10 and IAS 28 Amendments	*Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective date deferred indefinitely

(c) The following relevant new standards have been issued but are not effective for the financial year ended 31 December 2017 and have not been early adopted (the financial year for which the adoption is required is stated).

IFRS 4 Amendments	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
IFRS 17	*Insurance Contracts*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow:

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 using the modified retrospective application. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Group does not expect the impact to be significant.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. During 2017, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity except for those financial asset carried at fair value through OCI and will perform a detailed assessment in the future to determine the extent. The group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) to annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. During 2017, the Group performed reassessment of the amendments due to business combination activities and concluded that its activities continue to be predominately connected with insurance as at 31 December 2017. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow (continued):

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts, which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period
- Amounts that the policyholder will receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group started a project to implement IFRS 17 and is performing a high-level impact assessment of IFRS 17. The Group expects that the new standard will result in important changes to the accounting policies for insurance contract liabilities of the Group and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow (continued):

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

A summary of the significant accounting policies adopted by the Group in the preparation of the Group's consolidated financial statements is set out below.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries

A subsidiary is an entity (including structured entities) directly or indirectly controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) contractual arrangements with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it de-recognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Investments in associates and joint ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

When an investment in an associate is a venture capital organization, a mutual fund, unit trust or similar entity, including investment-linked insurance funds (i.e. an investment entity) and the investment entity associate applies fair value measurement to its subsidiaries, the Group retains the fair value measurement applied by the investment entity associate to its interests in subsidiaries when applying the equity method.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. Any surplus of the Group's interest in the acquiree's net assets over the cost of acquisition is, after reassessment, credited to profit or loss as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.2 Basis of consolidation (continued)

Business combinations and goodwill (continued)
Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts

Product classification
Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Some insurance contracts, referred to as participating contracts, have discretionary participation features, “DPF”, which may entitle the customer to receive, as a supplement to guaranteed benefits, significant additional non-guaranteed benefits, such as policyholder dividends or bonuses. These contracts are distinct from other insurance contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The Group’s products may be divided into the following main categories:

Policy type	Description of benefits payable	Basis of accounting for insurance contract liabilities
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. Most of the products pay annual cash dividends. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience.	Depending on the particular features and circumstances of the traditional participating insurance contracts, the insurance contract liabilities make provision for either: i) the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders; or ii) the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition a reserve (“Undistributed Participating Policyholder’s Earning Account”) is maintained to ensure that profits that will eventually be returned to policyholders through the payment of dividends/bonuses in later policy years are not reported as current income by the Group. In both cases, deferred profit liabilities for limited payment contracts are also recognized.
Non-participating life assurance, annuities and other protection products	Benefits payable are not at the discretion of the insurer.	Insurance contract liabilities reflect the present value of future policy benefits to be paid and the future administration expenses that are directly related to the contract, less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognized.
Investment-linked	These may be primarily savings products or may combine savings with an element of protection.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

The basis of accounting for life insurance contracts is further discussed below.

2.3.1 Life insurance contracts

Premiums

For single premium business, premiums are recognized as revenue on the date when the policy becomes effective. Regular premiums from life insurance contracts, including participating policies, investment-linked contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognize profits over the estimated life of the policies. For limited pay contracts, premiums are recognized in profit or loss when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Fees and commission income

Life insurance contract policyholders are charged fees for policy administration services, investment management services and surrenders.

The fees are recognized as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, these are deferred and recognized in profit or loss as the service is provided over the term of the contract. Initial and other front end fees are also deferred and recognized over the term of the contract.

Other fees

Other fees are recognized when the services have been rendered.

Deferred Acquisition Costs ("DAC")

The costs of acquiring new insurance contracts, including commissions and distribution costs, underwriting and other policy issue expenses which vary with, and are primarily related to, the production of new business or renewal of existing business, are deferred as an asset.

DAC is evaluated for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. DAC is evaluated for recoverability at least annually thereafter in the liability adequacy test together with the provision for life insurance liabilities and VOBA. Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in profit or loss.

DAC for traditional life insurance and annuity policies is amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

DAC for investment-linked contracts is amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. The interest rate used to compute the present value of revised estimates of expected gross profits is locked-in at policy inception. Deviations of actual results from estimated experience are reflected in earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>2.3 Insurance contracts (continued)</u>

2.3.1 Life insurance contracts (continued)

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortized using the same methodology and assumptions used to amortize acquisition costs when the sales inducements:

- are recognized as part of insurance contract liabilities;
- are explicitly identified in the contract on inception;
- are incremental to amounts credited on similar contracts without sales inducements; and
- are higher than the expected ongoing crediting rates for periods after the inducement.

Options and guarantees

Options and guarantees within insurance contracts are treated as derivative financial instruments which are closely related to the host insurance contract and are therefore not separated subsequently.

Benefits and claims

Life insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, reinsurance recoveries, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for reinsurance recoveries, and any adjustments to claims outstanding from previous years. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims and policyholder bonuses. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Life insurance contract liabilities

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies. Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

The Group accounts for participating policies by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon the Group's rules on profit distribution. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

For investment linked contracts, contract liabilities are directly linked to the underlying investment assets, which are portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) and an unearned revenue liability and sales inducement liability where applicable. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described in "Fees and commission income" above.

The unearned revenue liability arising from insurance contracts represents upfront fees and other non-level charges deferred and released to the consolidated statement of profit or loss and other comprehensive income over the estimated life of the business.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

2.3.1 Life insurance contracts (continued)

Liability adequacy testing
At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities.

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. For life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on purchased insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortized balances of deferred acquisition costs and value of business acquired on purchased insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortized balances for the specific portfolio of contracts to zero, a deficiency still exists, the liability is increased by the amount of the remaining deficiency.

Reinsurance
The Group cedes insurance risk in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognized, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognizes that impairment loss in the consolidated profit or loss and other comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Reinsurance assets or liabilities are de-recognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Value of business acquired (VOBA)
VOBA is an asset that reflects the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

2.3.1 Life insurance contracts (continued)

Other assessments and levies
The Group is potentially subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance contract liabilities but are included under "Insurance and other liabilities" in the consolidated statement of financial position.

2.3.2 General Insurance contracts
Premiums
General insurance premiums written are recognized at policy inception and earned on a pro rata basis over the term of the policy related coverage.

Deferred acquisition costs
For general insurance, DAC is amortized on a straight line basis over the life of the contracts and de-recognized when the related contracts are settled or disposed of.

Benefits and claims
General insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous years.

General insurance contract liabilities
These liabilities include the provisions for outstanding claims, unearned premiums and unexpired risks. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs, reduced by the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is determined at the end of the reporting period using case estimates, supplemented by a range of standard actuarial claim projection techniques based on empirical data on current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophic reserves is recognized. The liability is de-recognized when the obligation to pay a claim expires, is discharged or is cancelled.

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium, which includes premiums received for risks that have not yet expired. The change in the provision for unearned premium is taken to profit or loss such that revenue is recognized over the period of risk using the 365 days method.

2.3.3 Insurance receivables
Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is the present value of estimated future cash flows discounted at the original effective interest rate. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

Insurance receivables are de-recognized when the de-recognition criteria for financial assets, as described in "De-recognition of financial instruments" below, have been met.

2.4 Reinsurance contracts

Product classification
Reinsurance contracts are defined as those containing significant insurance risk at the inception of the contract. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as a reinsurance contract, it remains a reinsurance contract for the rest of its life time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2.4.1 Life reinsurance contracts

Premiums
Premiums are recognized as income when risk coverage is provided to ceding companies.

Deferred Acquisition Costs
The costs of acquiring new reinsurance contracts, including commissions and distribution costs, underwriting and other expenses which vary with, and are primarily related to, the production of new business or renewal of existing business, are deferred as an asset and amortized on the straight-line basis over the terms of life reinsurance policies.

Life reinsurance contract liabilities
Reinsurance contract liabilities represent the estimated future benefit liability for the life reinsurance policies. Future benefits are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid to cedants, less the present value of estimated future net premiums to be collected from cedants.

Liability adequacy test
At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of reinsurance liabilities.

The liability adequacy test compares the carrying value of reinsurance contract liabilities less deferred acquisition costs with the fair value of the liabilities from the reinsurance portfolio recognized. If there is a deficiency, the unamortized balances of deferred acquisition costs are written down to the extent of the deficiency. If, after writing down the unamortized balances of deferred acquisition costs to zero, a deficiency still exists, the liability is increased by the amount of the remaining deficiency.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments

2.5.1 Fair value measurement

The Group measures its derivative financial instruments, debt instruments classified as available for sale or fair value through profit or loss, and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received in the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.2 Initial recognition and measurement

Financial assets

Financial assets within the scope of IAS 39 are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial investments, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied. When financial assets are recognized initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, loans and receivables, insurance and other receivables, amounts due from related parties, quoted and unquoted financial instruments, and derivative financial instruments.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, include directly attributable transaction costs.

The Group's financial liabilities include amounts due to related parties, insurance and other liabilities, borrowings and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.3 *Subsequent measurement*
Financial assets
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets designated upon initial recognition at fair value through profit or loss are so designated only if the criteria under IAS 39 are satisfied. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss. These net changes in fair value do not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are included in investment income in profit or loss.

Held-to-maturity financial assets
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are included in investment income in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.3 *Subsequent measurement (continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is de-recognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. For available-for-sale financial debt securities, the difference between their cost and par value is amortized using the effective interest rate method. Interest and dividends earned while holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognized in profit or loss as investment income in accordance with the policy set out for "Revenue" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Financial liabilities

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial liabilities designated upon initial recognition at fair value through profit or loss are so designated only if the criteria of IAS 39 are satisfied. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortized cost

Borrowings are stated at amortized cost, with any difference between net proceeds and redemption value recognized in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest rate amortization process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.4 De-recognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Financial liabilities and insurance payables are de-recognized when the obligation under the liability is discharged or cancelled, or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized as profit or loss.

2.5.5 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.6 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to investment income in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.6 Impairment of financial assets (continued)
Available-for-sale financial assets (continued)
In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group generally considers the number of months the cost of an available-for-sale investment is below its fair value and also the ratio of fair value over cost in determining an impairment provision. In addition, the Group evaluates other factors, such as the share price volatility. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.5.7 Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments, such as forward currency contracts, to manage currency or other risks within the Group. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current, or separated into current or non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.7 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the statement of profit or loss within “Finance costs”, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes the designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the statement of profit or loss over the residual period to maturity.

Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the statement of profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the statement of profit or loss (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the statement of profit or loss in the same period or periods during which the hedged forecast transaction affects the statement of profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, or the Group revokes the designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the statement of profit or loss.

2.5.8 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation

These financial statements are presented in United States dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than United States dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at exchange rates prevailing at the end of the reporting period and profit or loss and cash flow items are translated into United States dollars at the weighted average exchange rates for the period. The resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

2.7 Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment if there has been a significant change in the expected pattern of consumption of future economic benefits embodied in the intangible asset. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets in the consolidated statement of financial position include the access fees paid to bancassurance partners. The access fees are paid for the distribution rights over the contract term and are amortized over the initial contract term. These amortization charges are subsequently recorded and amortized as DAC. Details of the amortization method of the access fees are set out in note 14(b) of the consolidated financial statements.

2.8 Plant and equipment and depreciation

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Plant and equipment and depreciation (continued)

Depreciation is calculated on a straight-line basis to write off the cost of each item of plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	20%
Furniture and fixtures	20-33⅓%
Computer equipment	20-33⅓%
Leasehold improvements	Over the lease terms

Where parts of an item of plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of plant and equipment including any significant part initially recognized is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is de-recognized is the difference between the net sales proceeds and the carrying amount of the relevant assets.

2.9 Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value, less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an asset other than goodwill is reversed only if there has been a change in the estimate used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.10 Income taxes

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Income taxes (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.11 Revenue

Investment income
Interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex-dividend.

Realized gains and losses recorded in profit or loss
Realized gains and losses recorded in profit or loss on investments include gains or losses on financial assets. Gains and losses are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction. The costs of partial sales of investments with multiple acquisition dates are determined by using the weighted average principle.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Revenue (continued)

Fees and commission income
Fees and commission income consist primarily of administration service fees and surrender charges, fund management fees, income from any incidental non-insurance activities and commissions on reinsurance ceded. Reinsurance commissions are deferred in the same way as acquisition costs. All other fees and commission income are recognized as the services are provided.

Dividend income is recognized when the shareholders' right to receive payment has been established.

2.12 Employee benefits

Paid leave carried forward
The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of a reporting period is permitted to be carried forward and utilized by the respective employees in the following year. An accrual is made at the end of a reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits schemes-Defined Contribution Plans
The Group operates a defined contribution retirement benefits scheme for those employees who are eligible and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions becoming fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Retirement benefits schemes-Defined Benefit Plans
The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Re-measurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes restructuring-related costs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits (continued)

Retirement benefits schemes-Defined Benefit Plans (continued)
Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation in the consolidated statement of profit or loss and other comprehensive income:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income.

Long service payments
Certain employees of the Group are eligible for long service payments in the event of the termination of their employment according to certain local Employment Ordinances. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in those Employment Ordinances.

Share-based compensation
The Group offers share award plans for certain key employees as part of a compensation plan aligned with services provided in achieving shareholder value targets. The existing plan is an equity-settled plan and the compensation expense charged to the consolidated statement of profit or loss and other comprehensive income is based upon the fair value of the shares granted, the vesting period and the vesting conditions. It is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

At each period end, the Group assesses the number of shares that are expected to vest from those so far granted. Any impact arising from revisions to original estimates is recognized in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognized as a separate award, and therefore the fair value of each tranche is recognized over the applicable vesting period.

The Group utilizes an appraisal value method (Embedded Value plus a multiple of Value of New Business) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

2.13 Provisions and contingencies

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognized as a separate asset only when the reimbursement is probable.

The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the expected future expenditures required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Provisions and contingencies (continued)

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

2.14 Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease terms.

2.15 Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a)

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. Key judgments, estimates and assumptions are described below.

(a) Income taxes

Significant management judgment on the future tax treatment of certain transactions is required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account developments in tax laws. Tax laws evolve over time, and in some cases taxation positions are uncertain because the tax laws are subject to varied interpretation. When this is the case, management seeks to adopt a supportable and prudent tax treatment after consultation with professional tax advisers. However, as judicial and non-judicial interpretations develop, these taxation positions may change in the future.

(b) Valuation of deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits with future tax planning strategies. Further details are contained in note 12(b) to the financial statements.

(c) Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to calculate the actuarial appraisal value based on (i) embedded value with respect to the in-force business together with (ii) the value of future new business, and also to choose a suitable discount rate in order to calculate the present value of those expected future profits. Further details regarding goodwill are provided in note 13.

(d) Life insurance contract liabilities

The Group calculates insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation (where appropriate) for mortality, morbidity, expected investment yields, surrenders and expenses set at the policy inception date (or acquisition date for acquired insurance contracts). These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by denominated currency, year of issuance and product. Mortality, morbidity, surrender and expense assumptions are based on the Group's experience. The Group exercises significant judgment in making appropriate assumptions.

The judgments exercised in the valuation of insurance contract liabilities affect the amounts recognized in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policies, key risks and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.3, 2.4, 25 and 34.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(e) General insurance contract liabilities

For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims is the use of past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Similar judgments are made in assessing the adequacy of the unearned premium provision, whereby assessments are made of the expected future claim costs arising from the unexpired portion of contracts in force at the end of the reporting period.

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of general insurance contract liabilities are provided in notes 2.3.2, 25 and 34.

(f) Deferred acquisition costs

The judgments exercised in the deferral and amortization of acquisition costs affect amounts recognized in the consolidated financial statements as deferred acquisition costs and insurance contract benefits.

As described in note 2.3, deferred acquisition costs for traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As described in note 2.3, deferred acquisition costs for investment-linked contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits to be realized over the life of the contract. Significant judgment is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favorable investment performance, previously expensed acquisition costs are reversed (but not in excess of the amount initially deferred).

Additional details of deferred acquisition costs are provided in notes 2.3 and 15.

(g) Value of business acquired

The judgments exercised in the valuation and amortization of the fair value of insurance contracts of the acquired company in business combinations that affect amounts recognized in the consolidated financial statements as value of business acquired.

As described in note 2.3, value of business acquired is an asset that reflects the present value of estimated net cash flows before tax embedded in the insurance contracts of an acquired company which existed at the time of business combination. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

Additional details of value of business acquired are provided in notes 2.3 and 14.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(h) Liability adequacy testing
The Group evaluates the adequacy of its insurance contract liabilities at least annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed on a portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

The judgments exercised in liability adequacy testing affect amounts recognized in the consolidated financial statements such as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and liabilities.

(i) Fair values of financial assets
The Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions, values obtained from current bid prices of comparable investments and expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

Further details of the fair values of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 2.4, 17 and 34.

(j) Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. The Group assesses at each reporting date whether there is objective evidence that a financial asset, or a group of financial assets is impaired. Objective evidence that a financial asset, or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- A significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
    - Adverse changes in the payment status of issuers; or
    - Economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

Further details of the impairment of financial assets during the year are provided in notes 2.4.6 and 17.

(k) Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(l) Share-based compensation

The Group has adopted share-based compensation plans to retain, motivate and align the interests of eligible officers of the Group. These share-based compensation plans are accounted for as equity-settled plans under which shares are awarded. The Group utilizes an appraisal value method (Embedded Value ("EV") plus a multiple of Value of New Business ("VNB")) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

The Group determines appraisal value on the following basis:

- For life insurance businesses, the appraisal value equals EV plus a multiplier of VNB for the calendar year at the end of each performance period. The multiplier was agreed with the shareholders for the purpose of the IRR calculation. Certain adjustments were made to the reported EV to exclude the impact of certain items not within control of management or not anticipated in the original business plan.
- For non-life businesses, the appraisal value is calculated as the net asset value plus a multiplier of the net profits for the calendar year at the end of each performance period.
- For non-operating entities, the appraisal value is equal to the net asset value for the calendar year at the end of each performance period.

The Group takes into account all cash flow items on a monthly basis during the performance period when assessing the IRR achievement. Certain assumptions were made when constructing the monthly cash flows for the purpose of the IRR calculation.

The judgments exercised in the determination of appraisal value and the assessment of IRR achievement affect the amounts recognized in the consolidated financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.11 and 32.

(m) Fair value of investment in an associate

The Group has elected to retain the fair value measurement applied by the investment entity associate to its interests in subsidiaries when applying the equity method. The Group obtains valuation of the underlying portfolio entities of the associate based on actual funding raised from or committed by third parties to the portfolio entities. Further details are provided in note 21.

Fair value estimates in the underlying portfolio entities are based on the concept of an "orderly transaction", which assumes that the funding raised from or committed to by a third party is made with reasonable knowledge of relevant facts and the ability to perform sufficient due diligence to make an orderly investment decision, and that the third party is not acting under any compulsion to engage in the transactions. The ability to conduct an orderly transaction is key to ensuring market risk is properly accounted for in a funding test. The uncertainty of committed funding may add risk to fair value estimates in the underlying portfolio entities.

4. EXCHANGE RATES

The Group's principal operations during the reporting years are Japan, Thailand, Indonesia, the Philippines and Singapore. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rate	
	Year ended 31 December 2017	Year ended 31 December 2016
Japan	112.175	108.781
Thailand	33.934	35.286
Indonesia	13,380.881	13,304.099
The Philippines	50.403	47.506
Singapore	1.381	1.381

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rate	
	31 December 2017	31 December 2016
Japan	112.574	117.067
Thailand	32.620	35.790
Indonesia	13,540.499	13,446.001
The Philippines	49.858	49.585
Singapore	1.336	1.445

5. SEGMENT INFORMATION

The reportable segments of the Group correspond to each of the geographical markets in which the Group operates. Each of the reportable segments, other than “Corporate and Others”, writes life insurance business in its local market. Certain businesses within the Other Markets segment also write general insurance business. The reportable segments are Thailand, Japan, Other Markets and Corporate and Others. Other Markets includes the Group’s insurance operations in the Philippines, Indonesia, Singapore and reinsurance operations in the Cayman Islands. None of those insurance operations are individually significant and there have been presented in one segment.

The remaining operations of the Group, together with transactions of the holding and intermediate holding companies and consolidation adjustments, are included in Corporate and Others.

US$'000

	Year ended 31 December 2017				
	Thailand	Japan	Other Markets	Corporate and Others	Total
Net premiums	751,008	825,591	261,674	-	1,838,273
Fees and commission income	7,108	7,031	5,313	-	19,452
Investment return	128,843	28,527	22,716	2,757	182,843
Other operating revenue	1,144	484	2,626	5,389	9,643
TOTAL REVENUE	888,103	861,633	292,329	8,146	2,050,211
Net benefits and claims	(679,362)	(736,893)	(260,197)	-	(1,676,452)
Amortization of intangible assets	(15,433)	(11,856)	(7,477)	(2,364)	(37,130)
Net deferred acquisition cost movement	78,916	102,419	105,463	-	286,798
Finance costs	-	-	-	(10,862)	(10,862)
Commission and commission related expenses	(155,765)	(108,947)	(101,202)	-	(365,914)
Other operating and administrative expenses	(72,766)	(138,053)	(103,679)	(83,676)	(398,174)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(844,410)	(893,330)	(367,092)	(96,902)	(2,201,734)
Share of gains in associate and joint venture	-	-	-	1,614	1,614
PROFIT/(LOSS) BEFORE TAX	43,693	(31,697)	(74,763)	(87,142)	(149,909)
Income tax (expense)/credit	(13,146)	4,225	(3,356)	37	(12,240)
NET PROFIT/(LOSS)	30,547	(27,472)	(78,119)	(87,105)	(162,149)
OTHER COMPREHENSIVE INCOME, NET OF TAX	113,760	(18,225)	1,034	17,680	114,249
TOTAL COMPREHENSIVE INCOME	144,307	(45,697)	(77,085)	(69,425)	(47,900)

	31 December 2017				
	Thailand	Japan	Other Markets	Corporate and Others	Total
TOTAL ASSETS	4,457,216	7,071,827	598,796	124,536	12,252,375
TOTAL LIABILITIES	3,284,938	6,736,239	439,773	171,503	10,632,453
TOTAL EQUITY	1,172,278	335,588	159,023	(46,967)	1,619,922

5. SEGMENT INFORMATION (continued)

US$'000

	Year ended 31 December 2016				
	Thailand	Japan	Other Markets	Corporate and Others	Total
Net premiums	598,289	-	108,996	-	707,285
Fees and commission income	2,466	-	2,373	-	4,839
Investment return	95,381	-	(969)	3,486	97,898
Other operating revenue	322	-	2,823	6,161	9,306
TOTAL REVENUE	696,458	-	113,223	9,647	819,328
Net benefits and claims	(553,414)	-	(101,407)	-	(654,821)
Amortization of intangible assets	(1,721)	-	(4,465)	(2,507)	(8,693)
Net deferred acquisition cost movement	67,290	-	36,081	-	103,371
Finance costs	-	-	-	(11,003)	(11,003)
Commission and commission related expenses	(126,419)	-	(27,102)	-	(153,521)
Other operating and administrative expenses	(62,150)	-	(67,218)	(92,508)	(221,876)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(676,414)	-	(164,111)	(106,018)	(946,543)
Share of gains in associate and joint venture	-	-	-	1,966	1,966
PROFIT/(LOSS) BEFORE TAX	20,044	-	(50,888)	(94,405)	(125,249)
Income tax expense	(3,594)	-	(1,440)	(1)	(5,035)
NET PROFIT/(LOSS)	16,450	-	(52,328)	(94,406)	(130,284)
OTHER COMPREHENSIVE INCOME, NET OF TAX	(24,851)	-	(960)	(12,855)	(38,666)
TOTAL COMPREHENSIVE INCOME	(8,401)	-	(53,288)	(107,261)	(168,950)

	31 December 2016				
	Thailand	Japan	Other Markets	Corporate and Others	Total
TOTAL ASSETS	2,845,942	-	285,422	413,370	3,544,734
TOTAL LIABILITIES	2,467,884	-	171,382	277,949	2,917,215
TOTAL EQUITY	378,058	-	114,040	135,421	627,519

6. BUSINESS COMBINATION

On 30 April 2017, the Group acquired 100% interest in AIG Fuji Life Insurance Company, Limited in Japan and renamed the entity FWD Fuji Life Insurance Company, Limited ("FWD Japan") on 1 September 2017. FWD Japan is engaged in the manufacture and distribution of life insurance products in Japan. The purchase consideration for the acquisition was US$330,257,000 paid at the acquisition date. The fair values of the identifiable net assets of FWD Japan as at the date of acquisition are set out in note 6(a) of the consolidated financial statements

On 23 June 2017, the Group acquired 100% interest in E-Direct Insure Taiwan Limited and renamed the entity iFWD Insurance Broker Co., Ltd. ("iFWD Taiwan"). iFWD Taiwan's business is the distribution of insurance products online and via mobile platforms or by direct marketing in Taiwan. The purchase consideration for the acquisition was US$194,000 paid at the acquisition date. The fair values of the identifiable net assets of iFWD Taiwan as at the date of acquisition are set out in note 6(b) of the consolidated financial statements.

(a) FWD Japan

The fair values of the identifiable assets and liabilities of FWD Japan as at the date of acquisition were as follows:

US$'000	Notes	Fair value recognized at acquisition date
Value of business acquired	14	136,490
Other intangible assets	14	9,272
Property, plant and equipment	16	7,182
Financial assets		
Available-for-sale financial assets		5,731,393
Loans and receivables		127,869
Derivative financial instruments		9,498
Reinsurance assets	25	47,620
Prepayments, deposits and other assets		102,699
Insurance receivables		228,435
Cash and cash equivalents		110,120
Insurance contract liabilities	25	(5,835,976)
Insurance and other liabilities		(346,408)
Financial Liabilities		
Derivative financial instruments		(1,944)
Total identifiable net assets at fair value		326,250
Goodwill on acquisition	13	4,007
Total		330,257
Satisfied by cash		330,257
Total		330,257

6. BUSINESS COMBINATION (continued)

(a) FWD Japan (continued)

The fair value of VOBA recognized at the acquisition date represents the present value of future profits for the in-force business on insurance contracts acquired by the Group. The present value of future profits takes into consideration the cost of capital and is estimated using actuarial assumptions based on projections made at the acquisition date. The discount rate used to calculate the VOBA was 8%. The residual goodwill of US$4,007,000 represents the value of new business from existing and new distribution channels and customers going forward, and the value of workforce and management. None of the goodwill recognized is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition is as follows:

US$'000	
Cash consideration	(330,257)
Cash and bank balances acquired	110,120
Net inflow of cash and cash equivalents included in cash flows from investing activities	(220,137)

Following completion of the acquisition, FWD Japan contributed US$861,633,000 to the Group's revenue from continuing operations and US$31,697,000 to loss before tax for the period ended 31 December 2017.

Had the combination taken place at the beginning of 2017, the revenue from continuing operations of the Group and the loss before tax of the Group for the period would have been US$1,292,450,000 and US$47,546,000, respectively. This financial information is presented for informational purposes only. This information neither reflects the results that would have occurred had the acquisition been closed on the assumed date, nor indicate future results.

(b) iFWD Taiwan

The fair values of the identifiable assets and liabilities of iFWD Taiwan as at the date of acquisition were as follows:

US$'000	Notes	Fair value recognized at acquisition date
Property, plant and equipment	16	12
Prepayments, deposits and other assets		86
Cash and cash equivalents		5
Insurance and other liabilities		(9)
Total identifiable net assets at fair value		94
Goodwill on acquisition	13	100
Total		194
Satisfied by cash		194
Total		194

At the date of acquisition, the residual goodwill of US$100,000 was fully impaired after assessing the recoverable amount of iFWD Taiwan. The impairment of goodwill is not deductible for income tax purposes.

6. BUSINESS COMBINATION (continued)

(b) iFWD Taiwan (continued)

An analysis of the cash flows in respect of the acquisition is as follows:

US$'000	
Cash consideration	(194)
Cash and bank balances acquired	5
Net inflow of cash and cash equivalents included in cash flows from investing activities	(189)

7. NET PREMIUMS

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
(a) Gross premiums		
Life insurance contracts	1,888,971	687,162
Non-life insurance contracts	28,891	6,887
	1,917,862	694,049
Life reinsurance contracts	63,390	-
Total gross premiums	1,981,252	694,049
(b) Reinsurers' share of gross premiums		
Life insurance contracts	(137,559)	(7,169)
Non-life insurance contracts	(7,489)	(605)
Total reinsurers' share of gross premiums	(145,048)	(7,774)
(c) Change in unearned premiums		
Non-life insurance contracts	2,069	21,010
Net premiums	1,838,273	707,285

8. INVESTMENT RETURN

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	124,445	77,950
Dividend income	15,660	8,387
Investment income	140,105	86,337
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	54,641	37,618
Financial assets designated at fair value through profit or loss	44	-
Derivative financial instruments	20,444	2,811
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(38,677)	(24,046)
Financial assets designated at fair value through profit or loss	-	(50)
Derivative financial instruments	(29,057)	(2,409)
Net realized gains/(losses) on financial assets	7,395	13,924
Fair value gains/(losses) on derivative financial instruments	(10,130)	(74)
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	23,568	(2,193)
Net fair value gains/(losses) on financial assets	13,438	(2,267)
(Impairment)/Reversal of impairment of available-for-sale financial assets	-	(407)
(Impairment)/Reversal of impairment on secured loans	(488)	9
Foreign exchange difference	22,393	302
	182,843	97,898

9. NET BENEFITS AND CLAIMS INCURRED

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
(a) Gross benefits and claims paid		
Life insurance contract benefits and claims paid		
With DPF	42,118	51,064
Without DPF	493,981	102,287
Total life Insurance contract benefits and claims paid	536,099	153,351
Non-life insurance contract benefits and claims paid	14,617	25,941
	550,716	153,351
Life reinsurance contract benefits and claims paid	390	-
Total gross benefits and claims paid	551,106	179,292
(b) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(108)	(5)
Without DPF	(23,423)	(6,244)
Total reinsurers' share of life insurance contract benefits and claims paid	(23,531)	(6,249)
Reinsurers' share of non-life insurance contract benefits and claims paid	(2,215)	(26)
Total reinsurers' share of benefits and claims paid	(25,746)	(6,275)
(c) Gross change in contract liabilities		
Change in life insurance contract liabilities		
With DPF	86,213	88,554
Without DPF	1,108,908	394,838
Total change in life insurance contract liabilities	1,195,121	483,392
Change in non-life insurance contract liabilities	(2,228)	(1,126)
	1,192,893	482,266
Change in life reinsurance contract liabilities	44,093	-
Total gross change in contract liabilities	1,236,986	482,266
(d) Reinsurer's share of gross change in contract liabilities		
Reinsurer's share of change in life insurance contract liabilities		
With DPF	37	7
Without DPF	(83,484)	(191)
Total reinsurer's share of change in life insurance contract liabilities	(83,447)	(184)
Reinsurer's share of change in non-life insurance contract liabilities	(2,447)	(278)
Total reinsurer's share of gross change in contract liabilities	(85,894)	(462)
Total net benefits and claims	1,676,452	654,821

10. COMMISSION AND COMMISSION RELATED EXPENSES

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Commission expenses	246,463	84,655
Commission related expenses	119,451	68,866
	365,914	153,521

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US$'000	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Advertising and marketing expenses		36,601	23,390
Auditor's remuneration		1,219	616
Bank charges and other professional service fees		12,448	5,576
Computer and IT expenses		52,185	12,958
Depreciation		9,103	6,052
Employee benefit expenses			
Salaries and allowances		136,907	91,991
Share-based payment expenses	32	6,238	7,312
Pension contribution		6,070	2,492
Other staff costs		16,419	11,365
Legal and professional service fees		55,578	28,242
Office related expenses		7,728	5,213
Operating leases rental		11,318	5,492
Travel and entertainment		10,906	5,953
Loss/ (gain) on disposal of plant and equipment		99	(156)
Impairment of goodwill	13	13,361	-
Others		28,134	12,453
Foreign exchange differences, net		(6,140)	2,927
Total		398,174	221,876

12. Taxation

(a) Income tax

Taxes on profits have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

US$'000	Note	Year ended 31 December 2017	Year ended 31 December 2016
Current – Thailand		(163)	(3,812)
Current – Elsewhere		(495)	(395)
Deferred	12(b)	(11,582)	(828)
		(12,240)	(5,035)

A reconciliation of the tax credit/expense applicable to profit/(loss) before tax at the statutory rate applicable to each country where the Group has operations to the tax position at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, is as follows:

US$'000	Year ended 31 December 2017	%
Profit/(Loss) before tax	(149,909)	
Tax at the statutory tax rate	38,968	(26.0)
Income not subject to tax	1,228	(0.8)
Expenses not deductible for tax	(916)	0.6
Tax losses not recognized	(51,520)	34.4
	(12,240)	8.2

US$'000	Year ended 31 December 2016	%
Profit/(Loss) before tax	(125,249)	
Tax at the statutory tax rate	24,481	(19.5)
Income not subject to tax	1,271	(1.0)
Expenses not deductible for tax	(3,621)	2.9
Tax losses not recognized	(27,166)	21.6
	(5,035)	4.0

12. Taxation (continued)

(b) Deferred tax

The movement in deferred tax assets/(liabilities) during the year is as follows:

US$'000	Notes	Insurance contract liabilities	Pension liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses and other temporary differences	Total
1 January 2017		58,281	503	(40,316)	-	(30,390)	4,991	(6,931)
Acquisition of subsidiaries		94,548	-	-	(38,217)	(175,235)	48,185	(70,719)
Deferred tax credited/(charged) to profit or loss	12(a)	(3,176)	377	(33,933)	2,340	(1,160)	23,970	(11,582)
Deferred tax credited/(charged) to other comprehensive Income		-	(287)	-	-	(12,958)	(1,172)	(14,417)
Foreign exchange difference		3,350	47	(4,010)	952	297	(158)	478
31 December 2017		153,003	640	(78,259)	(34,925)	(219,446)	75,816	(103,171)

US$'000	Notes	Insurance contract liabilities	Pension liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses and other temporary differences	Total
1 January 2016		43,786	297	(24,375)	-	(35,349)	3,036	(12,605)
Acquisition of subsidiaries		-	-	-	-	-	22	22
Deferred tax credited/(charged) to profit or loss	12(a)	14,348	92	(15,995)	-	638	89	(828)
Deferred tax credited/(charged) to other comprehensive Income		-	114	-	-	4,964	1,846	6,924
Foreign exchange difference		147	-	54	-	(643)	(2)	(444)
31 December 2016		58,281	503	(40,316)	-	(30,390)	4,991	(6,931)

In 2017, the negative balances shown above of US$103,171,000 (2016: US$6,931,000), represent deferred tax assets of US$96,000 (2016: US$8,000) and deferred tax liabilities of US$103,267,000 (2016: US$6,939,000) relating to tax within the jurisdiction of the same tax authority.

Deferred tax assets are recognized to the extent that sufficient future taxable profits will be available for realization. The Group has tax losses arising in Hong Kong, Indonesia and Japan of US$87,353,000 (2016: US$51,424,000) that are available for offsetting against taxable profits from its subsidiaries in which the losses arose. In 2017, deferred tax assets of US$13,946,000 have been recognized in respect of these losses as it is considered probable that taxable profits will be available against which these tax losses can be utilized in the foreseeable future. The tax losses of Hong Kong can be carried forward indefinitely. The tax losses of remaining subsidiaries are due to expire within the periods ending 2022 (Indonesia) and 2027 (Japan).

As of 31 December 2017, the Group had no uncertain tax positions that qualify for disclosure in the financial statements except for the tax benefits arising from the access fee paid to our bancassurance partner in Thailand. According to the Thailand Tax Rule, this access fee is fully deductible for tax purposes but the timing of deductibility is uncertain.

As of 31 December 2017, management believes that it is more likely than not that the tax authority will accept the deducible amount as the access fee amortized over the term of the bancassurance agreement in the income tax filing to reflect the expected future economic benefit flowing into the Group's subsidiary in Thailand. Accordingly, the Group determined its tax position including amortization of the access fee over the term of the bancassurance agreement of US$13,006,000 in the current year.

In the unlikely case that the Thailand tax authority requires full deductibility for this access fee in 2017, based on management's best estimation, the Group would incur deferred tax liabilities of up to US$114,000,000 in 2018.

13. GOODWILL

US$'000

	Notes	31 December 2017	31 December 2016
At beginning of year			
Cost		66,257	53,094
Accumulated impairment		-	-
Foreign exchange difference		(5,914)	(5,992)
Net carrying amount		60,343	47,102
Movement during the year			
Acquisition of subsidiaries	6	4,107	13,163
Impairment provided during the year	11	(13,361)	-
Foreign exchange difference		2,864	78
Net carrying amount		53,953	60,343
At end of year			
Cost		70,364	66,257
Accumulated impairment		(13,361)	-
Foreign exchange difference		(3,050)	(5,914)
Net carrying amount		53,953	60,343

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units ("CGUs") for impairment testing:

- FWD Fuji Life Insurance Company, Limited
- FWD Life Insurance Public Company Limited
- PT FWD Life Indonesia
- FWD Singapore Pte. Ltd.

The recoverable amount of each CGU has been determined based on a value in use calculated as an actuarially determined appraisal value, based on (i) the Embedded Value ("EV") with respect to the in-force business together with (ii) the value of future new business. EV captures the market value of the assets in excess of those backing the policy reserves and other liabilities as well as the value of all in-force policies as at the reporting date attributable to the shareholders of the Company. The value of future new business is calculated by aggregating the present value of future expected profits on policies expected to be sold in the future (i.e., value of new business ("VNB")). Both EV and VNB are calculated in accordance with the Group's policies.

The Group adopts an approach that tests goodwill impairment at three levels.

- Level I – review any recent similar market transactions. If the purchase price implied by a similar market transaction is greater than the net asset value ("NAV") (inclusive of goodwill), the impairment test is passed.
- Level II –Impairment test is passed if the EV is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.
- Level III - The impairment test is passed if the EV plus the VNB for a reasonable number of future years is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.

If the recoverable amount is less than the NAV, the difference is recognized as an impairment loss in the Group's profit or loss.

13. GOODWILL (continued)

(a) FWD Fuji Life Insurance Company, Limited

No impairment loss has been recognized during the year as impairment test is passed at Level III for FWD Fuji Life Insurance Company, Limited.

The key assumptions used for the value in use impairment calculation of FWD Fuji Life Insurance Company, Limited are:

- Risk discount rate of 6% which is in line with industry average.
- Investment return assumptions of 1.69% of general account, progressively decreasing to 0.78% as the ultimate investment return assumption.
- VNB multiplier of 7 calculated using projected VNB over the next 15 years at a discount rate of 9%.

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years are the same as those used in the current five year business plan approved by the Group's Board. The growth rate beyond five years is 3% per year. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

With regard to the assessment of value in use, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

(b) FWD Life Insurance Public Company Limited

No impairment loss has been recognized during the year as impairment test is passed at Level III for FWD Life Insurance Public Company Limited.

The key assumptions used for the value in use impairment calculation of FWD Life Insurance Public Company Limited are:

- Risk discount rate of 9.05% (2016: 9.5%) which is in line with industry average
- Investment return assumptions ranging from 4.26% to 4.55% (2016: ranging from 4.1% to 4.96%) of the general account, progressively increasing to 4.80% (2016: 5.29%) as the ultimate investment return assumption.
- VNB multiplier of 13 (2016: 14) calculated using projected VNB over the next 15 years (2016: 15 years) at a discount rate of 9.05% (2016: 9.5%).

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years are the same as those used in the current five year business plan approved by the Group's Board. The growth rate beyond five years is 5% for the next five years and 3% per year thereafter. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

With regard to the assessment of value in use, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

13. GOODWILL (continued)

(c) PT FWD Life Indonesia

No impairment loss has been recognized during the year as the impairment test is passed at level III for PT FWD Life Indonesia.

The key assumptions used for the value in use impairment calculation of PT FWD Life Indonesia are:

- Risk discount rate of 14% (2016: 14%) which is in line with industry average.
- Investment return assumptions ranging from 3% to 11% (2016: 3% to 11%) for separate account and 7% (2016: 7%) for non-linked business.
- VNB multiplier of 18 (2016: 19) calculated using projected VNB over the next 15 years (2016: 15 years) at a discount rate of 16% (2016: 16%).

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years are the same as those used in the current five year business plan approved by the Group's Board. The growth rate beyond five years is 5% per year. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

For the risk discount rate assumption, a 1,226bps (2016: 932bps) increase would give a value in use equal to the carrying amount of the cash generating unit. A 100bps increase in the risk discount rate assumption would cause the carrying amount to exceed the value in use of the cash generating unit by US$64.9m (2016: US$37.8m).

For the VNB multiplier assumption, a reduction of the VNB multiplier by approximately 11.9 (2016: 10.2) would give a value in use equal to the carrying amount of the cash generating unit.

With regard to the assessment of value in use, management does not believe a reasonably possible change in the investment return assumption would cause the carrying value of the unit to exceed its recoverable amount.

(d) FWD Singapore Pte. Ltd.

Impairment loss of US$13,258,000, the full amount of the goodwill for FWD Singapore Pte. Ltd., has been recognized during the year as the impairment test is not passed at level III for FWD Singapore Pte. Ltd.

The key assumptions used for the value in use impairment calculation of FWD Singapore Pte. Ltd. are:

- Risk discount rate of 7.25% (2016: 7.25%) which is in line with industry average.
- Investment return assumption of 1% (2016: 2%).

14. INTANGIBLE ASSETS

US$'000	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Value of business acquired	14(a)	133,125	8,926
Other intangible assets	14(b)	693,268	23,266
		826,393	32,192

(a) Value of business acquired

US$'000	Notes	31 December 2017	31 December 2016
At beginning of year		8,926	10,077
Acquisition of subsidiaries	6	136,490	-
Amortization during the year		(9,698)	(1,266)
Foreign exchange difference		(2,593)	115
At end of year		133,125	8,926

(b) Other intangible assets

US$'000	Notes	31 December 2017	31 December 2016
At beginning of year		23,266	19,204
Additions		678,794	12,349
Acquisition of subsidiaries	6	9,272	-
Amortization during the year		(27,432)	(7,427)
Disposals during the year		(1,288)	-
Foreign exchange difference		10,656	(860)
At end of year		693,268	23,266

Other intangible assets in 2017 include US$6.4 million (2016: US$8.7 million) and US$645 million (2016: nil) access fees paid to our bancassurance partners in the Philippines and Thailand, respectively, with the remaining balance mainly consisting of software.

During the current year, the Group concluded the terms of a new Bancassurance Agreement with a bank in Thailand (the "Bank"). The agreement gives the Group exclusive distribution rights for its life insurance products through the Bank's channels for an initial term of 15 years from 1 January 2017. The Group paid an access fee for exclusive distribution rights over the contract term. The fee paid was recorded as an Intangible Asset in the consolidated statement of financial position and is amortized over the initial contract term. The amortization charge is subsequently recorded as DAC and then amortized over the expected life of the underlying insurance contracts according to the DAC accounting policy as described in note 2.3.1.

15. DEFERRED ACQUISITION COST AND DEFERRED COMMISSION INCOME

US$'000	31 December 2017		
	Deferred acquisition costs	Deferred commission income	Net
At beginning of year	237,955	(45)	237,910
Expenses/(income) deferred	432,631	(59,910)	372,721
Amortization during the year	(145,833)	6,538	(139,295)
Foreign exchange difference	19,966	203	20,169
At end of year	544,719	(53,214)	491,505

US$'000	31 December 2016		
	Deferred acquisition costs	Deferred commission income	Net
At beginning of year	136,481	-	136,481
Expenses/(income) deferred	154,803	(46)	154,757
Amortization during the year	(51,386)	-	(51,386)
Foreign exchange difference	(1,943)	1	(1,942)
At end of year	237,955	(45)	237,910

16. PLANT AND EQUIPMENT

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
31 December 2017					
31 December 2016:					
Cost	10,662	1,197	8,202	13,242	33,303
Accumulated depreciation	(4,017)	(650)	(3,933)	(8,344)	(16,944)
Net carrying amount	6,645	547	4,269	4,898	16,359
31 December 2016, net of accumulated depreciation	6,645	547	4,269	4,898	16,359
Acquisition of subsidiaries (note 6)	5,415	-	1,644	135	7,194
Additions	7,269	187	4,117	2,023	13,596
Disposals	(996)	(24)	(300)	2	(1,318)
Depreciation provided during the year	(3,408)	(217)	(2,643)	(2,835)	(9,103)
Foreign exchange difference	168	38	43	211	460
31 December 2017, net of accumulated depreciation	15,093	531	7,130	4,434	27,188
31 December 2017:					
Cost	22,641	1,336	12,796	15,959	52,732
Accumulated depreciation	(7,548)	(805)	(5,666)	(11,525)	(25,544)
Net carrying amount	15,093	531	7,130	4,434	27,188

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
31 December 2016					
31 December 2015:					
Cost	6,951	1,187	6,363	10,362	24,863
Accumulated depreciation	(2,678)	(461)	(2,194)	(5,955)	(11,288)
Net carrying amount	4,273	726	4,169	4,407	13,575
31 December 2015, net of accumulated depreciation	4,273	726	4,169	4,407	13,575
Acquisition of subsidiaries (note 6)	-	-	-	36	36
Additions	4,190	31	2,008	2,823	9,052
Disposals	(110)	-	(6)	(42)	(158)
Depreciation provided during the year	(1,588)	(210)	(1,883)	(2,371)	(6,052)
Foreign exchange difference	(120)	-	(19)	45	(94)
31 December 2016, net of accumulated depreciation	6,645	547	4,269	4,898	16,359
31 December 2016:					
Cost	10,662	1,197	8,202	13,242	33,303
Accumulated depreciation	(4,017)	(650)	(3,933)	(8,344)	(16,944)
Net carrying amount	6,645	547	4,269	4,898	16,359

17. FINANCIAL ASSETS

The following tables analyze the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Investment-linked Investments, and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by policyholders, and does not directly affect the profit or loss for the period. Furthermore, investment-linked policyholders are responsible for allocation of their policy values among investment funds offered by the Group. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

The Group has elected to apply the available for sale classification for the majority of debt securities and equities in the Policyholder and Shareholder Investments category. The investment risk from investments in this category directly impacts the Group's financial statements.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available-for-sale.

In compiling the tables, external ratings have been used where available. The following conventions have been adopted to conform the ratings of the various rating agencies.

Standard and Poor's	Moody's	Reported as
AAA	Aaa	AAA
AA+ to AA-	Aa1 to Aa3	AA
A+ to A-	A1 to A3	A
BBB+ to BBB-	Baa1 to Baa3	BBB
BB+ and below	Ba1 and below	Below investment grade

17. FINANCIAL ASSETS (continued)

17.1 Available-for-sale financial assets

Debt securities

US$'000
31 December 2017

	Rating	Life fund	Shareholder fund	Total
Government bonds - issued in local currency				
Japan	A	3,806,402	-	3,806,402
Thailand	BBB	1,770,575	-	1,770,575
Philippines	BBB	1,336	24,636	25,972
Indonesia	BBB	-	9,334	9,334
Sub-total		5,578,313	33,970	5,612,283
Government bonds - issued in foreign currency				
Belgium	AA	124,276	-	124,276
Laos	Not rated	19,459	-	19,459
Sub-total		143,735	-	143,735
Government agency bonds(1)				
AAA		129,822	-	129,822
AA		55,862	-	55,862
A		276,338	-	276,338
BBB		172,172	-	172,172
Below investment grade		9,424	-	9,424
Sub-total		643,618	-	643,618
Corporate bonds				
AAA		153,304	-	153,304
AA		258,186	-	258,186
A		247,160	-	247,160
BBB		486,317	-	486,317
Below investment grade		270,810	-	270,810
Sub-total		1,415,777	-	1,415,777
Structured securities				
AAA		67,557	-	67,557
AA		180,688	-	180,688
Sub-total		248,245	-	248,245

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

17. FINANCIAL ASSETS (continued)

17.1 Available-for-sale financial assets (continued)

Equity securities

US$'000
31 December 2017

	Life fund	Shareholder fund	Total
Equity shares - Listed	300,128	5,410	305,538
Equity shares - Unlisted	3,078	3,056	6,134
Interest in investment funds	218,612	-	218,612
Sub-total	521,818	8,466	530,284
Others			
Others	-	1,927	1,927
Sub-total	-	1,927	1,927
Total Available-for-sale financial assets	8,551,506	44,363	8,595,869

17. FINANCIAL ASSETS (continued)

17.1 Available-for-sale financial assets (continued)

Debt securities

US$'000
31 December 2016

	Rating	Life fund	Shareholder fund	Total
Government bonds - issued in local currency				
Thailand	BBB	1,433,911	-	1,433,911
Philippines	BBB	-	20,318	20,318
Indonesia	BBB	-	4,219	4,219
Sub-total		1,433,911	24,537	1,458,448
Government bonds - issued in foreign currency				
Laos	Not rated	17,293	-	17,293
Sub-total		17,293	-	17,293
Government agency bonds(1)				
AA		14,961	-	14,961
BBB		125,867	-	125,867
Below investment grade		9,327	-	9,327
Sub-total		150,155	-	150,155
Corporate bonds				
BBB		55,167	-	55,167
Below investment grade		145,644	-	145,644
Sub-total		200,811	-	200,811

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

Equity securities

US$'000
31 December 2016

	Life fund	Shareholder fund	Total
Equity shares - Listed	192,351	-	192,351
Equity shares - Unlisted	11	-	11
Interest in investment funds	160,591	-	160,591
Sub-total	352,953	-	352,953
Others			
Others	-	2,003	2,003
Sub-total	-	2,003	2,003
Total Available-for-sale financial assets	2,155,123	26,540	2,181,663

17. FINANCIAL ASSETS (continued)

17.1 Available-for-sale financial assets (continued)

During the year, the gross change in fair value in respect of the Group's available-for-sale financial assets recognized in other comprehensive income amounted to an increase of US$86,748,000 (2016: decrease of US$11,125,000). Net realized gains of US$15,964,000 (2016: US$13,572,000) with nil reversal of impairment loss (2016: impairment loss of 443,000) were reclassified from other comprehensive income to profit or loss.

As at 31 December 2017, a subsidiary of the Group has pledged State Enterprise bonds amounting to US$686,000 (December 2016: US$596,000) with the Registrar in accordance with the Life Insurance Act in Thailand. The subsidiary has also pledged government fixed interest securities amounting to US$642,912,000 (December 2016: US$464,597,000) as life assurance policy reserves with the Registrar in accordance with the Life Insurance Act in Thailand.

17.2 Financial assets at fair value through profit or loss

Debt securities

US$'000 31 December 2017	Rating	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in local currency				
Philippines	BBB	-	8,739	8,739
Sub-total		-	8,739	8,739

Equity securities

US$'000 31 December 2017	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	-	113,095	113,095
Equity shares - Unlisted	-	-	-
Interest in investment funds	35,888	89,384	125,272
Sub-total	35,888	202,479	238,367

Others

US$'000 31 December 2017	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Certificate of deposits	-	9,429	9,429
Others	-	6,968	6,968
Sub-total	-	16,397	16,397
Total financial assets at fair value through profit or loss	35,888	227,615	263,503

All financial assets at fair value through profit or loss at 31 December 2017 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

17. FINANCIAL ASSETS (continued)

17.2 Financial assets at fair value through profit or loss (continued)

Debt securities

US$'000 31 December 2016	Rating	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in local currency				
Philippines	BBB	-	9,433	9,433
Sub-total		-	9,433	9,433

Equity securities

US$'000 31 December 2016	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	-	51,793	51,793
Equity shares - Unlisted	-	-	-
Interest in investment funds	1,702	24,330	26,032
Sub-total	1,702	76,123	77,825

Others

US$'000 31 December 2016	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Certificate of deposits	-	11,790	11,790
Total financial assets at fair value through profit or loss	1,702	97,346	99,048

All financial assets at fair value through profit or loss at 31 December 2016 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

17.3 Loans and receivables

US$'000	31 December 2017	31 December 2016
Policy loans	263,277	105,100
Secured loans	7,829	7,649
Accreting deposits and promissory notes	227,010	172,257
Other financial receivables	3,441	2,408
At end of year	501,557	287,414

Policy loans are stated at amortized cost, are interest-bearing at market interest rates and are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not exceed the cash value. The policy loans bear interest at rates ranging from 2.25% to 8% (2016: 4% to 8%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses. Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate to their fair values, except for accreting deposits. The details of fair value for accreting deposits are provided in note 20.

17. FINANCIAL ASSETS (continued)

17.4 Derivative financial investments

The Group had the following derivative financial instruments outstanding as at the end of the reporting year.

US$'000	Contract/notional Amount	Carrying Amount Assets	Carrying Amount Liabilities
31 December 2017	982,000	2,691	11,126
31 December 2016	444,046	-	19,603

Derivatives assets and derivative liabilities are recognized in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities, respectively. The carrying amounts of the derivative financial instruments are equal to their fair values and all derivatives are classified as current. The Group's derivative contracts are foreign exchange swaps, which provide an economic hedge for the Group's foreign exchange risk exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the table above reflect the aggregate of individual derivative positions on a gross basis to give an indication of the overall scale of derivative transactions. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

18. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group, other than insurance contract liabilities and associated reinsurance assets, as at the end of the reporting year are as follows:

31 December 2017

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	9,429	-	501,557	510,986
Debt securities	8,739	6,647,101	-	6,655,840
Equity securities	245,335	1,948,768	-	2,194,103
Derivative financial instruments	2,691	-	-	2,691
Deposits and other assets	-	-	192,044	192,044
Insurance receivables	-	-	297,355	297,355
Reinsurance receivable	-	-	-	-
Due from related parties	-	-	97,484	97,484
Cash and cash equivalents	-	-	650,996	650,996
	266,194	8,595,869	1,739,436	10,601,499

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Due to related parties	-	21,397	21,397
Borrowings	-	248,825	248,825
Derivative financial instruments	11,126	-	11,126
Insurance and other liabilities	-	511,991	511,991
	11,126	782,213	793,339

18. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2016

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	11,790	-	287,414	299,204
Debt securities	9,433	1,828,710	-	1,838,143
Equity securities	77,825	352,953	-	430,778
Derivative financial instruments	-	-	-	-
Deposits and other assets	-	-	72,986	72,986
Insurance receivables	-	-	48,708	48,708
Due from related parties	-	-	63,449	63,449
Cash and cash equivalents	-	-	386,113	386,113
	99,048	2,181,663	858,670	3,139,381

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Due to related parties	-	17,676	17,676
Borrowings	-	246,888	246,888
Derivative financial instruments	19,603	-	19,603
Insurance and other liabilities	-	166,193	166,193
	19,603	430,757	450,360

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for accreting deposits. The details of fair value for accreting deposits are provided in note 20.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of borrowings, loans and receivables, deposits and other assets, insurance receivables, reinsurance receivables, amounts due from related parties, cash and cash equivalents, amounts due to related parties, insurance and other liabilities approximate to their carrying amounts largely because these instruments either have short term maturities or are interest-bearing at market interest rates.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity and fixed income investments are based on quoted market prices.

The fair values of unlisted debt securities are valued internally using a discounted cash flow model, which incorporates observable market data based on security specific characteristics. Inputs to the valuation model include credit ratings, credit spreads, treasury yields and issue-specific liquidity adjustments. The carrying amounts of unlisted debt securities are equal to their fair value.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with sound credit ratings. Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

20. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	17.1	454,514	8,133,294	8,061	8,595,869
Financial assets at fair value through profit or loss	17.2	174,120	89,383	-	263,503
Derivatives	17.4	-	2,691	-	2,691
		628,634	8,225,368	8,061	8,862,063

31 December 2016

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	17.1	295,238	1,884,411	2,014	2,181,663
Financial assets at fair value through profit or loss	17.2	81,249	17,799	-	99,048
		376,487	1,902,210	2,014	2,280,711

Liabilities measured at fair value:

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivatives	18	-	11,126	-	11,126
		-	11,126	-	11,126

31 December 2016

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivatives	18	-	19,603	-	19,603
		-	19,603	-	19,603

20. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The movement in the fair value measurement in the Group's Level 3 financial assets during the year is as follows:

US$'000	31 December 2017	31 December 2016
Financial assets - unlisted		
At beginning of year	2,014	11
Acquisition of subsidiary	2,474	-
Fair value changes recorded in the statement of profit or loss	(129)	-
Fair value changes recorded in OCI	650	-
Purchases/(Disposals)	3,080	2,001
Foreign exchange difference	(28)	2
At end of year	8,061	2,014

During the year, there were no transfers into or out of Level 3.

Assets for which fair values are disclosed:

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Accreting deposits	17.3	-	-	215,658	215,658

31 December 2016

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Accreting deposits	17.3	-	-	149,617	149,617

21. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

On 31 July 2014, the Group acquired a 22.64% interest in the share capital of Nova Founders Capital Limited ("Nova") in the form of preference shares. In addition, the Group was also granted call options to acquire a further 2.33% interest in Nova. The purchase consideration for the investment was US$30,000,000. Nova is a private entity that is engaged in the business of building financial services focused internet companies. The Group's interest in Nova, as an associate, is accounted for using the equity method in the consolidated financial statements. Nova is an investment entity and measures its portfolio companies at fair value. The Group retains the fair value measurement applied by Nova when using the equity method.

On 2 September 2015, the Group acquired a 51% interest in the ordinary share capital of Edirect Insure Capital Limited ("EICL"). The purchase consideration for the investment was US$5,000,000. EICL's business is the distribution of insurance products online and via mobile platforms or by direct marketing methods in the ASEAN jurisdictions and Taiwan. Considering all facts and circumstances, the Group concluded it has joint control over EICL. The Group's interest in EICL, as a joint venture, is accounted for using the equity method in the consolidated financial statements.

On 10 October 2017, the Group acquired a 30% interest in the ordinary share capital of Pivot Fintech Pte. Ltd. ("Pivot"). The consideration for the investment was US$1,549,000. Pivot's business is to provide investment management services in ASEAN countries. The Group's interest in Pivot, as an associate, is accounted for using the equity method in the consolidated financial statements.

The following table shows the Group's carrying amounts of investments in associates and joint ventures:

US$'000	Notes	31 December 2017	31 December 2016
Nova	21(a)	42,803	38,865
EICL	21(b)	4,959	7,270
Pivot		1,537	-
		49,299	46,135

	31 December 2017	31 December 2016
Income from the Group's interest in Nova	3,938	4,009
The Group's share of post-acquisition losses in EICL	(2,311)	(2,043)
The Group's share of post-acquisition losses in Pivot	(13)	-
	1,614	1,966

21. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE (continued)

(a) Investment in associate:

In accordance with the terms of the shareholders' agreement, the Group was guaranteed certain returns on its investment in Nova ("the guaranteed amount"). In accounting for the Group's interest in Nova, the Group recognizes the higher of (1) the guaranteed amount and (2) the share of fair value of Nova's net assets plus goodwill. The Group was also granted call options to acquire a further 2.33% interest in Nova from other shareholders. The fair value of the call options is recognized as part of the Group's interest in Nova when the option price is in-the-money. The following table shows the Group's interest in Nova before considering the guaranteed amount:

US$'000	31 December 2017	31 December 2016
The Group's share of Nova's net assets	34,422	32,891
Goodwill on acquisition	3,274	3,274
Fair value gain from call options	1,210	1,052
At end of year	38,906	37,217

The following table illustrates the summarized financial information for Nova adjusted for any differences in accounting policies.

US$'000	31 December 2017	31 December 2016
Cash and cash equivalents	10,110	17,472
Fair value of portfolio companies	144,378	122,617
Other assets	2,164	7,255
Total liabilities	(4,613)	(2,067)
Nova's net assets	152,039	145,277
The Group's share of Nova's net assets	34,422	32,891

(b) Investment in joint venture:

US$'000	31 December 2017	31 December 2016
Share of net assets	1,951	3,885
Goodwill	3,008	3,385
At end of year	4,959	7,270

The Group does not have any capital commitments relating to its joint venture. None of Nova, EICL or Pivot had any contingent liabilities at 31 December 2017.

22. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US$'000

	31 December 2017	31 December 2016
Accounts receivable	94,980	17,422
Accrued investment income	69,025	32,608
Deposits	14,514	3,077
Investment receivable	8,204	15,714
Prepayments	8,773	8,790
Prepaid Tax	3,656	1,884
Other assets	5,321	4,165
Total prepayments, deposits and other assets	204,473	83,660

23. INSURANCE RECEIVABLES

US$'000

	31 December 2017	31 December 2016
Due from policyholders	53,075	42,313
Due from reinsurers	244,280	6,395
Total current insurance receivables	297,355	48,708

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as the policy terminates and becomes void if and when the total indebtedness on a policy exceeds its cash surrender value. The amounts due from reinsurers arise from normal course of reinsurance business and are usually settled within a year. None of the above balances are either past due or impaired as there is no recent history of default.

The carrying amounts of current insurance receivables approximate to their fair values.

24. CASH AND CASH EQUIVALENTS

US$'000

	31 December 2017	31 December 2016
Time deposits	87,867	241,771
Savings accounts	131,543	32,380
Current accounts	431,544	111,922
Cash on hand	42	40
	650,996	386,113
Less: Pledged time deposits	(64)	(58)
Cash and cash equivalents	650,932	386,055

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy counterparties. Credit risk exposure of the balance according to the counterparties' credit ratings is presented in note 34 to the financial statements.

25. INSURANCE CONTRACT LIABILITIES

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	9,617,128	(130,673)	9,486,455
Non-life insurance contracts	(b)	14,996	(6,126)	8,870
		9,632,124	(136,799)	9,495,325
Life reinsurance contracts	(c)	43,872	-	43,872
Total insurance contract liabilities		9,675,996	(136,799)	9,539,197

US$'000	Notes	31 December 2016 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	2,441,200	(931)	2,440,269
Non-life insurance contracts	(b)	15,980	(756)	15,224
		2,457,180	(1,687)	2,455,493
Life reinsurance contracts	(c)	-	-	-
Total insurance contract liabilities		2,457,180	(1,687)	2,455,493

(a) Life insurance contracts

The movement of insurance liabilities under insurance contracts is as follows:

US$'000	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2017	2,441,200	(931)	2,440,269
Acquisition of subsidiary (note 6)	5,835,976	(47,620)	5,788,356
Valuation premiums and deposits received	1,670,751	(73,559)	1,597,192
Expected investment return	126,362	(341)	126,021
Liabilities released for deaths, maturities, surrenders and other benefit payments	(634,360)	(9,192)	(643,552)
Interest accrued and change in unit price	68,320	-	68,320
Foreign exchange movements	96,755	969	97,724
Other movement	12,124	1	12,125
At 31 December 2017	9,617,128	(130,673)	9,486,455

US$'000	31 December 2016 Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2016	1,954,717	(109)	1,954,608
Valuation premiums and deposits received	600,574	5	600,579
Expected investment return	83,603	-	83,603
Liabilities released for deaths, maturities, surrenders and other benefit payments	(224,390)	(831)	(225,221)
Interest accrued and change in unit price	16,474	-	16,474
Foreign exchange movements	2,773	9	2,782
Other movement	7,449	(5)	7,444
At 31 December 2016	2,441,200	(931)	2,440,269

25. INSURANCE CONTRACT LIABILITIES (continued)

Business description
The table below summarizes the key variables underlying life insurance contract cash flows.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations.	• Investment performance • Expenses • Mortality • Lapses • Morbidity • Dividend / bonus rates
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	• Mortality • Morbidity • Lapses • Expenses
Accident and health non-participating	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	• Mortality • Morbidity • Lapses • Expenses
Investment-linked	Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitized funds.	Benefits are based on the value of the unitized funds and death and living benefits.	• Investment performance • Lapses • Partial withdrawals • Premium holidays • Expenses • Mortality • Morbidity

25. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions
The most significant items impacting profit or loss for the period and shareholders' equity are market, insurance and lapse risks, as shown in the table below. Indirect exposure indicates that there is a second-order impact. For example, while the profit or loss for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders, there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

	Market and credit risk			
	Direct exposure			
Type of contract	Insurance contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance	• Investment performance	• Persistency • Mortality • Morbidity
Traditional non-participating life assurance	• Investment performance • Asset-liability mismatch risk	• Asset-liability mismatch risk • Credit Risk • Investment performance	• Not applicable	• Mortality • Morbidity • Persistency
Accident and health non-participating	• Loss ratio • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Investment-Linked	• Net neutral	• Net neutral	• Performance-related investment management fees	• Mortality • Persistency • Partial withdrawals • Premium holidays

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

25. INSURANCE CONTRACT LIABILITIES (continued)

(b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		4,468	(2,177)	2,291
Provision for claims incurred but not reported ("IBNR")		1,217	(638)	579
Total claims reported and IBNR	(i)	5,685	(2,815)	2,870
Provision for unearned premiums	(ii)	9,311	(3,311)	6,000
Total non-life insurance contract liabilities		14,996	(6,126)	8,870

US$'000	Notes	31 December 2016 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		5,040	(199)	4,841
Provision for claims incurred but not reported ("IBNR")		2,515	(94)	2,421
Total claims reported and IBNR	(i)	7,555	(293)	7,262
Provision for unearned premiums	(ii)	8,425	(463)	7,962
Total non-life insurance contract liabilities		15,980	(756)	15,224

(i) The provision for claims reported by policyholders and IBNR is as follows:

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017		7,555	(293)	7,262
Acquisition of subsidiaries		-	-	-
Claims incurred in the year		12,395	(4,655)	7,740
Claims recovered/(paid) during the year	9	(14,617)	2,215	(12,402)
Foreign exchange movements		352	(82)	270
31 December 2017		5,685	(2,815)	2,870

US$'000	Notes	31 December 2016 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2016		24	(18)	6
Acquisition of subsidiaries		9,328	-	9,328
Claims incurred in the year		24,722	(307)	24,415
Claims recovered/(paid) during the year	9	(25,941)	26	(25,915)
Foreign exchange movements		(578)	6	(572)
31 December 2016		7,555	(293)	7,262

25. INSURANCE CONTRACT LIABILITIES (continued)

(ii) The provision for unearned premiums is as follows:

US$'000	31 December 2017		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017	8,425	(463)	7,962
Premiums written in the year	28,891	(7,489)	21,402
Premiums earned during the year	(28,257)	4,786	(23,471)
Foreign exchange difference	252	(145)	107
31 December 2017	9,311	(3,311)	6,000

US$'000	31 December 2016		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2016	260	(25)	235
Acquisition of subsidiaries	29,321	-	29,321
Premiums written in the year	6,887	(605)	6,282
Premiums earned during the year	(27,448)	157	(27,291)
Foreign exchange difference	(595)	10	(585)
31 December 2016	8,425	(463)	7,962

(c) Life reinsurance contracts

The movement of reinsurance liabilities under life reinsurance contracts is as follows:

US$'000	31 December 2017		
	Reinsurance contract liabilities	Retrocessionaires' share of liabilities	Net
1 January 2017	-	-	-
Valuation premiums and deposits received	49,032	-	49,032
Expected investment return	94	-	94
Liabilities released for deaths, maturities, surrenders and other benefit payments	(5,010)	-	(5,010)
Foreign exchange movements	(245)	-	(245)
Other movement	1	-	1
31 December 2017	43,872	-	43,872

US$'000	31 December 2016		
	Reinsurance contract liabilities	Retrocessionaires' share of liabilities	Net
1 January 2016	-	-	-
Valuation premiums and deposits received	-	-	-
Expected investment return	-	-	-
Liabilities released for deaths, maturities, surrenders and other benefit payments	-	-	-
Foreign exchange movements	-	-	-
Other movement	-	-	-
31 December 2016	-	-	-

25. INSURANCE CONTRACT LIABILITIES (continued)

(c) Life reinsurance contracts (continued)

Methodology and assumptions
Life reinsurance contract liabilities included mathematical reserves and claims reserves.

Mathematical reserves relate to guaranteed claims and benefits of ceding companies and are estimated using actuarial methods to determine the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapses and the expected future interest rates. Actuarial principles used allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins are no longer considered sufficient.

Claims reserves for losses and claims settlement expenses are recognized for payment obligations for reinsurance losses that have occurred but have not yet been settled. They are recognized for reserves for reinsurance losses reported before the reporting date and reserves for reinsurance losses that have already been incurred but not yet reported.

26. BORROWINGS

US$'000

	31 December 2017	31 December 2016
Bank credit facilities	248,825	246,888

The bank facility is denominated in United States dollars and bears interest at 2.25% above LIBOR per annum.

Finance costs in 2017 included interest expense of US$10,862,000 (2016: US$10,886,000) on borrowings.

The Group has outstanding bank credit facilities of US$248,825,000 (2016: US$246,888,000). The net increase of US$1,937,000 in the carrying amount during 2017 consists of US$8,925,000 of interest repayments and US$10,862,000 of non-cash increase due to amortization using the effective interest rate method.

27. INSURANCE AND OTHER LIABILITIES

US$'000

	31 December 2017	31 December 2016
Accounts payable	14,629	6,610
Accrued commissions	71,985	36,520
Accrued expenses	90,452	52,763
Insurance payables	287,903	24,259
Investment creditors	30,117	34,563
Other payable	13,430	5,889
Others	2,863	2,698
Tax payable	612	2,891
Total insurance and other liabilities	511,991	166,193

The carrying amounts of the insurance and other liabilities approximate to their fair values.

28. SHARE CAPITAL AND RESERVES

(1) Share capital

US$'000

	31 December 2017	31 December 2016
Authorized,		
2,000,000,000 ordinary shares of US$0.01 each	20,000	20,000
500,000,000 preference shares of US$0.01 each	5,000	5,000
	25,000	25,000
Issued and fully paid,		
18,790,625 (2016: 18,671,205) ordinary shares of US$0.01 each	188	187
9,783,055 (2016: 8,202,225) preference shares of US$0.01 each	98	82
	286	269

During the year, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
(a) Ordinary shares issued and fully paid		
Issuance of 1 ordinary shares of US$1 each on 3 January 2013	-	-
Issuance of 9 ordinary shares of US$1 each on 14 February 2013	-	-
Issuance of 1,000,000 ordinary shares of US$1 each on 27 February 2013	1,000	99,000
Surrender of 990,009.9 ordinary shares of US$1 each on 10 December 2013	(990)	-
Sub-division of 10,000.1 ordinary shares of US$1 each to 1,000,010 ordinary shares of US$0.01 each on 10 December 2013	-	-
Issuance of 17,486,630 ordinary shares of US$0.01 each On 10 December 2013	175	(175)
Issuance of 100,000 ordinary shares of US$0.01 each on 5 June 2015	1	3,421
Issuance of 50,000 ordinary shares of US$0.01 each on 29 Jan 2016	1	1,710
Issuance of 34,565 ordinary shares of US$0.01 each on 29 July 2016	0	1,182
31 December 2016	187	105,138
Issuance of 50,000 ordinary shares of US$0.01 each on 28 July 2017	0	1,711
Issuance of 69,420 ordinary shares of US$0.01 each on 6 December 2017	1	2,373
31 December 2017	188	109,222
(b) Preference shares issued and fully paid		
3 January 2013	-	-
Issuance of 2,601,634 preference shares of US$0.01 each on 10 December 2013	26	249,974
Issuance of 5,600,591 preference shares of US$0.01 each on 19 August 2015	56	506,741
31 December 2016	82	756,715
Issuance of 1,264,672 preference shares of US$0.01 each on 23 February 2017	13	402,127
Issuance of 316,158 preference shares of US$0.01 each on 11 May 2017	3	92,799
31 December 2017	98	1,251,641
31 December 2017	286	1,360,863

28. SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

Each preference share in the Company issued and outstanding is entitled to the same voting rights as each ordinary share in the Company.

In the event of an initial public offering of the Company, the preference shares shall be converted into ordinary shares in the Company at a ratio of 1:1.

The preference shares rank pari passu with all other shares in the Company on any payment of dividend or distribution or return of capital (other than on a liquidation event). If a liquidation event occurs, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the preference shareholders (in priority to any payment to the holders of any other class of shares in the capital of the Company) with the amount equal to the subscription price paid minus the preferential distributions received by the preference shareholders.

(2) Direct capital instrument

FWD Group Limited issued a direct capital instrument ("DCI") in two tranches on 15 June 2017 and 6 July 2017. The DCI is a zero coupon subordinated perpetual capital security issued for a total nominal amount of US$750,000,000. No distributions are paid on the DCI for the first five years (the zero coupon period). The DCI confers a right to receive distributions (the "Distributions") commencing from 15 June 2022 and then semi-annually in arrears on 15 June and 15 December of each subsequent year (the "Distribution Payment Dates"). The DCI is listed on The Stock Exchange of Hong Kong Limited.

The Company may, at its sole option, defer the Distribution on the DCI by giving notice to the DCI holders not more than ten nor less than five business days prior to a Distribution Payment Date. In the event of any Distribution deferral, the Company cannot declare or pay any dividend on its ordinary or preference share capital. The DCI has been treated as equity in its entirety in the consolidated statement of financial position.

The DCI has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 15 June 2022, or at any Distribution Payment Date following 15 June 2022.

(3) Reserves

(a) Share-based payment reserve
The share-based payment reserve comprises the outstanding reserve for the share-based compensation plan.

(b) Legal reserve
The legal reserve has been established to fulfill the requirement of Thailand's local statutory requirement.

(c) Available-for-sale financial assets revaluation reserve
The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

(d) Defined benefit obligation revaluation reserve
The defined benefit obligation revaluation reserve comprises the outstanding reserve for the defined benefit plan.

(e) Capital redemption reserve
The capital redemption reserve represents the non-distributable reserve for paid up share capital.

(f) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

29. SUBSIDIARIES

Particulars of the Group's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
FWD Group Financial Services Pte. Limited	Singapore	100	-	Investment holding
FWD Group Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Public Company Limited	Thailand	-	87	Life Insurance
FWD Life Insurance Corporation Limited	Philippines	-	100	Life Insurance
PT FWD Life Indonesia	Indonesia	-	75	Life Insurance
FWD Singapore Pte. Ltd.	Singapore	-	97	Life and general Insurance
FWD Fuji Life Insurance Company, Limited	Japan		100	Life insurance
FWD Reinsurance Ltd.	Cayman Islands	-	100	Life reinsurance

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above.

Except for the acquisition of FWD Fuji Life Insurance Company, Limited on 30 April 2017 as described in note 6 above, the incorporation of FWD Reinsurance Ltd. during 2017 and the additional equity acquired for FWD Singapore Pte. Ltd. (from 94% at 31 Dec 2016 to 97% at 31 Dec 2017), the percentage of total direct and indirect equity attributable to the Company in each of the above subsidiaries was the same at both 31 December 2017 and 31 December 2016.

Financial positions and financial results of FWD Life Insurance Public Company Limited and PT FWD Life Indonesia are consolidated at 100% in the consolidated financial statements, and hence, no non-controlling interests are recognized.

30. COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

US$'000	31 December 2017	31 December 2016
Within one year	20,262	16,497
In the second to fifth years, inclusive	39,993	25,486
Over five years	3,163	-
	63,418	41,983

31. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

Key management personnel of the Group are those that have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Short-term employee benefits	13,301	11,377
Post-employment benefits	235	216
Share-based payment	6,238	7,312
Other long-term benefits	2,331	2,589
Total compensation paid and payable to key management personnel	22,105	21,494

(b) Transactions with related parties:

The Group has transactions with certain related companies and these consolidated financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(I) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the year.

(i) The Group charged US$3,768,000 (2016: US$4,422,000) for administration, consultancy and management services provided to related parties and incurred US$4,406,000 (2016: US$2,897,000) for provision of IT, HR and other building-related services provided by related parties.

(ii) The Group charged US$1,391,000 (2016: US$849,000) for brand licensing fees to related parties.

(iii) The Group purchased certain group insurance contracts from related companies. The total premiums incurred on these contracts for the year was US$910,000 (2016: US$763,000).

(iv) Related companies charged the Group US$2,201,000 (2016: US$1,034,000) for the provision of telecommunication and investment advisory services.

(II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US$97,484,000 (2016: US$63,449,000) as at the end of the reporting year. The amounts due are unsecured, interest-free and payable on demand.

(III) As disclosed in the consolidated statements of financial position, the Group had outstanding advances payable to related companies of US$21,397,000 (2016: US$17,676,000) as at the end of the reporting year. The advances are unsecured, interest-free and payable on demand.

32. SHARE-BASED COMPENSATION

Share-based compensation plans

The Group operates a share award plan that provides FWD Group Limited shares to participants upon vesting. Eligible employees are granted share awards to reward service and the achievement of shareholder value targets. These awards are in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of up to four years and are at nil cost to the employee. Vesting of certain awards is conditional upon the employee being in active employment at the time of vesting. Vesting of certain other awards is subject to certain performance conditions in addition to the employee being in active employment at the time of vesting. Award holders do not have any right to dividends or voting rights attaching to the shares prior to vesting. All awards consist of the ordinary shares of FWD Group Limited.

The following table shows the movement in outstanding awards under the Group's share-based compensation plans:

Number of shares	2017	2016
At beginning of year	750,000	850,000
Granted during the year	93,750	-
Vested during the year	(119,420)	(84,565)
Forfeited during the year	(30,580)	(15,435)
At end of year	693,750	750,000

The share award plan is subject to local regulatory approval.

Valuation methodology
To calculate the fair value of the share awards with performance conditions, the Group utilizes an appraisal value methodology (Embedded Value plus a multiple of Value of New Business) and an assessment of performance conditions (IRR achievement), taking into account the terms and conditions upon which the awards were granted. The fair value calculated for share awards is inherently subjective due to the assumptions made.

The total fair value of share awards granted during the year ended 31 December 2017 is US$5,081,000 (2016: nil).

Recognized compensation cost
The fair value of the employee services received in exchange for the grant of shares is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total expense recognized in the consolidated financial statements related to share-based compensation awards granted under the share award plan by the Group for the year ended 31 December 2017 is US$6.2million (2016: US$7.3 million).

33. GROUP CAPITAL STRUCTURE

Capital Management

The Group's capital management objective is focused on maintaining a strong capital base to safeguard the Group's ability to continue as a going concern, to support the development of the business, maximize shareholders' value and to ensure that the Group complies with regulatory capital requirements. No changes were made in objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

Regulatory Solvency

The Group complied with all regulatory capital requirements during the year. The primary insurance regulators for the Group's subsidiaries are:

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Public Company Limited	Thailand Office of Insurance Commission ("THOIC")	Life Insurance Act of Thailand
FWD Life Insurance Corporation	Insurance Commission of the Philippines	The Insurance Code of the Philippines 2013
PT FWD Life Indonesia	Financial Service Authority ("OJK")	Minister of Finance Regulation No. 53/PMK.010/2012
FWD Singapore Pte. Ltd.	Monetary Authority of Singapore ("MAS")	Insurance Act (Cap. 142)
FWD Fuji Life Insurance Company, Limited	Financial Services Agency ("FSA")	Insurance Business Act
FWD Reinsurance Ltd.	Cayman Islands Monetary Authority ("CIMA")	Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations, 2012

33 GROUP CAPITAL STRUCTURE (continued)

The capital positions of the Group's principal operating companies at 31 December 2017 and 31 December 2016 are as follows:

31 December 2017 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Public Company Limited ("FWD Thailand")	397,416	140,078	284%
FWD Life Insurance Corporation ("FWD Philippines")	22,207	1,712	1,297%
PT FWD Life Indonesia ("FWD Indonesia")	7,675	2,218	346%
FWD Singapore Pte. Ltd. ("FWD Singapore")	32,122	5,027	639%
FWD Fuji Life Insurance Company, Limited ("FWD Japan")	263,871	32,039	824%
FWD Reinsurance Ltd. ("FWD Re")	18,548	542	3,405%

31 December 2016 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Public Company Limited ("FWD Thailand")	334,114	122,857	272%
FWD Life Insurance Corporation ("FWD Philippines")	22,329	1,181	1,891%
PT FWD Life Indonesia ("FWD Indonesia")	4,173	859	486%
FWD Singapore Pte. Ltd. ("FWD Singapore")	17,116	4,634	369%

FWD Fuji Life Insurance Company, Limited (not applicable as the company was acquired in April 2017)
FWD Reinsurance Ltd. (not applicable as the company was incorporated in March 2017)

33. GROUP CAPITAL STRUCTURE (continued)

Regulatory Solvency (continued)

The Life Insurance Act of Thailand (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Thailand. The Life Insurance Act of Thailand requires FWD Thailand to maintain a required minimum solvency margin of 100%.

The Insurance Code of the Philippines 2013 and other insurance regulations set minimum capital requirements that an insurer must meet in order to be authorized to carry on insurance business in or from the Philippines. The Insurance Code of the Philippines 2013 requires FWD Philippines to maintain minimum net admitted assets of at least Php1billion at all times. In addition, Insurance Memorandum Circular 6-2006 prescribes that the risk-based capital ("RBC") ratio (company net worth over its RBC) be at least 125% at every year-end.

The Government of Indonesia, through the Minister of Finance, sets and monitors capital requirements and other regulatory requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Indonesia. The Minister of Finance Regulation No. 53/PMK.010/2012 dated April 3, 2012 of Indonesia requires FWD Indonesia to maintain a minimum solvency margin of at least 120%.

The Singapore Insurance Act (Chapter 142) and other relevant Regulations set the minimum capital requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Singapore. Regulation issued under the Insurance Act (Chapter 142) requires FWD Singapore to maintain minimum paid-up capital of at least SGD10million. In addition, The Insurance Act (Chapter 142) prescribes that the risk-based capital ("RBC") ratio (company net worth over its RBC requirement) be at least 100% at every period-end.

The Enforcement Ordinance of the Insurance Business Act and Comprehensive Guidelines for Supervision of Insurance Companies sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Japan. The Comprehensive Guidelines for Supervision of Insurance Companies Section II-2-2-2 requires FWD Japan to maintain a required minimum solvency margin ratio of 200%.

The Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations, 2012 sets prescribed capital and minimum capital requirements that a Class B(iii) insurer must meet in order to carry on insurance business in or from the Cayman Islands. In addition, CIMA requires FWD Re to maintain a minimum solvency margin of 400% based on the Japanese Risk Based Capital requirements.

The Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the relevant local regulations and "required capital" as the minimum required margin of solvency calculated in accordance with the relevant local regulations. The solvency ratio is the ratio of total available capital to required capital.

34. RISK MANAGEMENT

Risk management framework

The Group's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organization within its stated Risk Appetite. The framework includes an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial and non-financial risks.

The Group issues contracts that transfer insurance risks, financial risks or both. The insurance risks and financial risks associated with the Group's operations and the Group's management of these risks are summarized below:

Insurance risks

(1) Life insurance contracts

Insurance risks comprise product design risk, underwriting and expense overrun risk, lapse risk and claims risk.

(a) Product design risk
Product design risk refers to potential defects in the development of a particular insurance product. The Group manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office.

The Group closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products. A portion of the Group's life insurance business is participating in nature. In the event of a volatile investment environment and/or unusual claims experience, the Group has the option of adjusting non-guaranteed bonuses and dividends payable to policyholders.

(b) Underwriting and expense overrun risk
Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product. The Group manages underwriting risk by adhering to underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. In certain circumstances where insufficient experience data is available, the Group makes use of reinsurers to obtain underwriting expertise. In pricing insurance products, the Group manages expense overrun risk by allowing for an appropriate level of expenses that reflects a realistic medium-to long-term view of the underlying cost structure. A disciplined expense budgeting and management process is followed to control expenses.

(c) Lapse risk
Lapse risk refers to the possibility that lapse experience diverges from that assumed when products were priced. It includes potential financial loss due to early termination of contracts where the acquisition costs incurred may not be recoverable from future revenue. The Group carries out regular reviews of persistency experience. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

(d) Claims risk
Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced. The Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.

Reinsurance solutions are used to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes. Although the Group has reinsurance arrangements in place, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

34. RISK MANAGEMENT (continued)

Insurance risks (continued)

(1) Life insurance contracts (continued)

The Group's accounting policies lock in assumptions for traditional insurance contracts at policy inception and incorporate provisions for adverse deviation. As a result, the levels of movement illustrated in the table below do not result in loss recognition, and so there is no corresponding effect on liabilities. The table below shows the impact on profit before tax from changes in mortality, morbidity, investment return, expenses and lapse/discontinuance rates:

Impact on profit before tax US$'000	2017	2016
10% increase in mortality	(6,630)	(2,418)
10% increase in morbidity	(5,945)	(1,840)
1% decrease in investment return	(2,095)	(1,464)
10% increase in expenses	(22,132)	(6,268)
10% increase in lapse/discontinuance rates	(8,957)	(5,948)

Financial risks

The Group is exposed to a range of financial risks, including credit risk, market risk, and liquidity risk. The Group applies a consistent risk management philosophy that is embedded in management processes and controls such that both existing and emerging risks are considered and addressed.

The following section summarizes the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Although the primary source of credit risk is the Group's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Group accepts is managed and monitored by the Asset and Liability Management Committee, through establishment of an exposure limit for each counterparty or group of counterparties, reporting of credit risk exposures, monitoring compliance with exposure limits, and a regular review of limits due to changes in the macro-economic environment.

The Group actively manages its investments to ensure that there is no significant concentration of credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder.

Management of the Group directs the Group's reinsurance placement policy and annually assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit ratings provided by rating agencies and other publicly available financial information. The Group also monitors the recoverability of its reinsurance assets on an ongoing basis.

34. RISK MANAGEMENT (continued)

Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Group at the end of the reporting year.

(a) Credit risk (continued)

31 December 2017 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	350,683	619,012	4,329,900	2,464,370	265,902	14,332	551,670	8,595,869
Fair value through profit or loss	-	-	38,477	8,739	103,818	-	112,469	263,503
Loans and receivables	-	13,040	-	204,773	9,197	-	274,547	501,557
Derivative financial instruments	-	1,573	452	666	-	-	-	2,691
Reinsurance assets	-	-	1,803	-	-	-	134,996	136,799
Prepayments, deposits and other assets	1,957	4,195	90,132	4,012	994	-	103,183	204,473
Reinsurance receivables	-	-	-	-	-	-	-	-
Insurance receivables	2,943	3,886	501	23	-	16	289,986	297,355
Due from related parties	-	-	-	-	-	-	97,484	97,484
Cash and cash equivalents	1,231	202,787	372,903	47,713	2,376	-	23,986	650,996
	356,814	844,493	4,834,168	2,730,296	382,287	14,348	1,588,321	10,750,727

34. RISK MANAGEMENT (continued)

Financial risks (continued)

(a) Credit risk (continued)

31 December 2016 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	-	14,960	-	1,635,264	176,483	-	354,956	2,181,663
Fair value through profit or loss	-	-	10,898	5,719	56,406	-	26,025	99,048
Loans and receivables	-	11,885	25,976	134,396	-	-	115,157	287,414
Reinsurance assets	-	-	1,249	-	-	-	438	1,687
Prepayments, deposits and other assets	1	434	755	-	-	-	82,470	83,660
Insurance receivables	871	5,586	6,209	520	-	-	35,522	48,708
Due from related parties	-	-	-	-	-	-	63,449	63,449
Cash and cash equivalents	5,040	283,123	48,695	37,722	4,895	-	6,638	386,113
	5,912	315,988	93,782	1,813,621	237,784	-	684,655	3,151,742

The credit ratings are provided by reputable international credit rating agencies as explained in note 17. Assets identified as "not rated" mainly represented listed and unlisted equities, unit trust investments, policyholder loans and receivables which, by nature, do not have credit ratings.

34. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Group is exposed to liquidity risk in respect of insurance contracts that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

To manage liquidity risk the Group has implemented a variety of measures, with an emphasis on flexible insurance product design, so that it can retain the greatest flexibility to adjust contract pricing or crediting rates. The Group also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of its insurance contracts. The Group performs regular monitoring of its liquidity position through cash flow projections.

The table below summarizes financial assets and liabilities of the Group into their relevant maturity groupings based on the remaining period at the end of the reporting year to their contractual maturities or expected repayment dates. Most of the Group's assets are used to support its insurance contract liabilities, which are not shown in the table below. Refer to Note 25 for additional information on the Group's insurance contract liabilities, as well as to the Insurance Risks section within Note 34.

31 December 2017

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	149,540	340,664	421,923	7,151,532	532,210	8,595,869
Fair value through profit or loss	39,305	1,127	1,065	5,875	216,131	263,503
Loans and receivables	133,863	-	-	227,010	140,684	501,557
Derivative financial instruments	1,136	-	876	679	-	2,691
Deposits and other assets	178,050	8,676	623	778	3,917	192,044
Insurance receivables	297,355	-	-	-	-	297,355
Due from related parties	-	-	-	-	97,484	97,484
Cash and cash equivalents	171,890	16,627	-	-	462,479	650,996
Total	971,139	367,094	424,487	7,385,874	1,452,905	10,601,499
Due to related parties	-	-	-	-	21,397	21,397
Financial liabilities						
Borrowings	248,825	-	-	-	-	248,825
Derivatives financial liabilities	5,168	4,770	1,188	-	-	11,126
Insurance and other liabilities	284,174	531	134	179	226,973	511,991
Total	538,167	5,301	1,322	179	248,370	793,339

34. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

31 December 2016

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	10,503	4,682	34,593	1,776,929	354,956	2,181,663
Fair value through profit or loss	11,061	276	534	4,745	82,432	99,048
Loans and receivables	1,343	-	-	172,256	113,815	287,414
Deposits and other assets	65,966	2,999	-	433	3,588	72,986
Insurance receivables	48,705	3	-	-	-	48,708
Due from related parties	-	-	-	-	63,449	63,449
Cash and cash equivalents	306,089	8,354	-	-	71,670	386,113
Total	443,667	16,314	35,127	1,954,363	689,910	3,139,381
Due to related parties	-	-	-	-	17,676	17,676
Financial liabilities						
Borrowings	-	246,888	-	-	-	246,888
Derivatives financial liabilities	10,013	6,536	2,569	485	-	19,603
Insurance and other liabilities	136,370	67	137	182	29,437	166,193
Total	146,383	253,491	2,706	667	47,113	450,360

(c) Market risk

(i) Currency risk

The Group's financial assets are predominantly denominated in the same currencies as its insurance liabilities, which serves to mitigate the foreign currency exchange risk. The level of currency risk the Group accepts is managed and monitored by the Asset and Liability Management Committee of the Group, through regular monitoring of currency positions of financial assets and insurance contracts.

The Group's net foreign currency exposures and the estimated impact of changes in foreign exchange rates are set out in the tables below after taking into account derivative contracts entered into to hedge foreign exchange rate risk. Currencies for which net exposure is not significant are excluded from the analysis below. At 31 December 2017, assets denominated in United States dollars, Thai Bhat and Japanese Yen accounted for 6% (2016: 13%), 35% (2016: 80%) and 52% (2016: 1%) of the Group's total assets, respectively, and liabilities denominated in Thai Bhat and Japanese Yen accounted for 31% (2016: 86%) and 63% (2016: 1%) of the Group's total liabilities, respectively. In compiling the table below, the impact of a 10 percent strengthening of original currency of the relevant operation is stated relative to the functional currency of the Group (US dollar). The impact of a 10 percent strengthening of the US dollar is also stated relative to the original currency of the relevant operation. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

34. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

US$'000

Currency	Change in variables	Impact on profit before tax 31 December 2017	31 December 2016
THB	+10% strengthening of original currency	3,055	2,004
THB	+10% strengthening of the US dollar	(2,604)	(1,990)

US$'000

Currency	Change in variables	Impact on total equity 31 December 2017	31 December 2016
THB	+10% strengthening of original currency	117,211	35,801
THB	+10% strengthening of the US dollar	(106,575)	(32,379)

US$'000

Currency	Change in variables	Impact on (loss) before tax 31 December 2017	31 December 2016
JPY	+10% strengthening of original currency	(3,686)	(1,676)
JPY	+10% strengthening of the US dollar	3,209	1,523

US$'000

Currency	Change in variables	Impact on total equity 31 December 2017	31 December 2016
JPY	+10% strengthening of original currency	32,161	(2,192)
JPY	+10% strengthening of the US dollar	(29,240)	1,994

(ii) Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any difference between the tenor of the Group's liabilities and assets, or any difference between the return on investments and the return required to meet the Group's commitments, predominantly its traditional insurance liabilities. This exposure is heightened in products with inherent interest rate options or guarantees.

The Group seeks to manage interest rate risk by ensuring appropriate product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of investment assets with the duration of insurance contracts. Given the long duration of policy liabilities and the uncertainty of future cash flows arising from these contracts, it is not possible to acquire assets that will perfectly match the policy liabilities. This results in interest rate risk, which is managed and monitored by the Asset and Liability Management Committee of the Group. The duration of interest bearing financial assets is regularly reviewed and monitored by referencing the estimated duration of insurance contract liabilities.

The analysis below illustrates the sensitivity of shareholders' equity to changes in interest rates. The analysis illustrates the impact of changing interest rates in isolation, and does not quantify potential impacts arising from changes in other assumptions. The Group's accounting policies lock in interest rate assumptions for traditional insurance contracts at policy inception and incorporate a provision for adverse deviation. As a result, the level of interest rate movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

34. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(ii) Interest rate risk

In the analysis, it is assumed that the discount rates for the liabilities with regard to insurance contracts remain unchanged.

US$'000

Currency	Change in variables	Impact on shareholders' equity 31 December 2017	31 December 2016
THB	+25 basis points	(70,350)	(56,249)
THB	-25 basis points	73,274	58,436

US$'000

Currency	Change in variables	Impact on shareholders' equity 31 December 2017	31 December 2016
JPY	+25 basis points	(198,726)	-
JPY	-25 basis points	198,726	-

(iii) Equity market risk

The Group's equity market risk exposure relates to financial assets and liabilities whose values fluctuate as a result of changes in equity market prices, principally investment securities not held for the account of investment-linked policyholders.

The Group manages these risks by setting and monitoring investment limits in each country and sector.

The Group's principal equity price risk is related to movement in the fair value of its equity securities. The analysis below shows the impact on shareholders' equity to changes in equity prices, with all other variables held constant.

US$'000

		Impact on shareholders' equity 31 December 2017	31 December 2016
Change in equity prices	-10%	(36,396)	(27,128)

35. COMPARATIVE AMOUNTS

The comparative information for net benefits and claims (note 9) has been re-presented for consistency with the presentation of current year financial information.

36. EVENTS AFTER THE REPORTING YEAR

On 7 March 2018, FWD Group Limited issued 948,504 convertible perpetual preference shares to Future Financial Investment Company Ltd in a private placement for a total consideration of US$300,000,000. The securities rank pari passu with other preference shares issued by the Group.

Audited Financial Statements

FWD GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2018

Building a better working world

FWD GROUP LIMITED

CONTENTS

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Independent auditor's report
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion
We have audited the consolidated financial statements of FWD Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 9 to 105, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for *the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters

Key audit matter #1	**How our audit addressed the key audit matter**
Valuation of investment properties	
During the year, the Group acquired certain real estate investments in Japan for a total consideration of US$305M. At 31 December 2018, the Group recorded investment properties amounted to US$306M. The majority of the investment properties are stated at fair value based on valuations carried out by independent qualified professional valuers ("the Valuers"). The valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates and market rents. For the investment properties acquired in November 2018 the acquisition price was used as a proxy of fair value as at 31 December 2018. Management assessed if there is any significant event happening in the intervening period that may change the key assumptions which would impact the year end valuation. This assessment process also requires significant management judgement. We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements, combined with the significant judgement in determining the fair value. Details of the valuation techniques and significant unobservable input used in the valuations are disclosed in Notes 3(n) and 17.	Our audit procedures included evaluating the competence, capabilities and objectivity of the Valuers; obtaining an understanding of the valuation process and techniques adopted by the Valuers to assess if they are consistent with industry norms; reviewing the valuation reports to assess the key assumption used based on our knowledge of the real estate industry; checking, on a sample basis, the accuracy and relevance of the input data used. For investment properties acquired in November 2018, our audit procedures included assessing the management's assessment on whether there is any significant event happening in the intervening period that may change the key assumptions which would impact the year end valuation; assessing the acquisition price which was used as a proxy of fair value during year end is of arm's length.

Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #2	**How our audit addressed the key audit matter**
Bancassurance agreement in Thailand – measurement of an intangible asset	
In 2017, the Group renewed the bancassurance agreement between FWD Thailand and Thai Military Bank ("TMB") for a period of 15 years to gain exclusive access to the distribution network of TMB and the Group recorded an intangible asset of US$643M as at 31 December 2018, with amortization based on the forecasted Value of New Business ("VNB") over the contract period of 15 years. The accounting treatment of the upfront fees paid under the bancassurance agreement was considered to be a key audit matter, because the amount involved was significant to the consolidated financial statements and measurement of the intangible asset required significant management judgement, with respect to the recoverability of the intangible asset and the choice of an appropriate amortisation basis that reflected the expected pattern of consumption of economic benefits of the Group and the reasonableness of projected VNB amounts that determined the annual amortisation charge of the intangible asset. The Company's disclosures about the bancassurance agreement are included in Note 14, which details the amounts of the recognised intangible asset and the corresponding amortisation.	Our audit procedures included reviewing the management's assessment of the existence of potential impairment indicators; assessing the amortisation basis and evaluating the projected VNB amounts in light of the business plan and commercial targets agreed with TMB; assessing key assumptions used in projected VNB calculation and discussed with management to understand and evaluate management's basis for determining the assumptions, and compared them to external industry data.

Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #3	**How our audit addressed the key audit matter**
Bancassurance agreement in Thailand – uncertain tax position	
In the 2018 consolidated financial statements, the Group determined its current and deferred income tax positions relating to FWD Thailand on the basis that the upfront fees paid to TMB could be amortised on a straight-line basis over the 15-year contract period for income tax purposes. There is uncertainty as to whether the Tax Authority in Thailand accepts the amortisation of the expense or whether it must be deducted entirely in the year it was paid. Management is of the opinion that it is probable that amortisation of the expense will be accepted by the Tax Authority in Thailand, but discloses the uncertainty around that tax position in the consolidated financial statements. We consider the uncertain tax position relating to the tax treatment of the upfront fee paid under the bancassurance agreement with TMB to be a key audit matter, given the significant potential impact on the consolidated financial statements if the Tax Authority in Thailand rejects amortisation of the expense and instead imposes the immediate deduction of the entire amount in the 2018 tax return. The Company's disclosures on the uncertain tax position relating to fees paid under the bancassurance agreement are included in Note 12.	Our audit procedures included reviewing management's analysis of the relevant tax rules and precedent cases, evaluating the basis for management's conclusion that it is probable that amortisation will be accepted by the Tax Authority, reviewing the external tax specialist's advice obtained by management, reviewing correspondence with the Tax Authority in Thailand, assessing adequacy of the disclosures on uncertain tax positions, and reviewing the estimated maximum exposure disclosed. These procedures have been performed with the assistance of our internal tax specialists in Thailand.

Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #4	How our audit addressed the key audit matter
Life insurance contract liabilities	
At 31 December 2018, the Group carried gross insurance contract liabilities of US$11,437M relating to life insurance contracts. At each reporting date, the Group evaluates the adequacy of life insurance contract liabilities, net of deferred acquisition cost ("DAC") and value of business acquired ("VOBA"), in the liability adequacy test. The Group recorded VOBA and DAC of US$124M and US$1,112M respectively, as at 31 December 2018. The measurement of life insurance contract liabilities was significant to our audit because the balance of life insurance contract liabilities was material to the consolidated financial statements. In addition, management's process for measuring life insurance contract liabilities and the liability adequacy test were complex and involved significant judgement relating to uncertain future outcomes of long-term insurance contracts. Economic assumptions, such as investment returns and discount rates, and non-economic assumptions, such as lapses, mortality, morbidity, persistency and expenses were key assumptions used to estimate the future outcomes of long-term insurance contracts and to measure the related liabilities. The Group's disclosures about insurance contract liabilities, DAC, and VOBA are included in Notes 3(d), 3(f), 3(g), 14, 15, 26(a) which explain the movements of insurance contract liabilities, DAC, and VOBA, and the key exposures impacting profit or loss for the year and shareholders' equity.	Our audit procedures on life insurance contract liabilities, performed with the assistance of our internal actuarial specialists, included obtaining an understanding of the features and risk coverage of insurance contracts, the validation of accuracy of underlying policy data, the verification of actuarial models, the review of methodologies and assumptions used in the measurement of liabilities by reference to the Group’s historical data and applicable industry experience, with particular attention to changes in assumptions and components of life insurance contract liabilities with material fluctuations from the prior year. For a sample of contracts, we recalculated the year-end liability. For new insurance products, we reviewed product classification based on management's assessment of significant insurance risk. In assessing the adequacy of life insurance contract liabilities and the recoverability of DAC and VOBA at year-end, we reviewed methodologies and assumptions used in performing the liability adequacy test by reference to the Group’s historical data and applicable industry experience, and analysed the resulting calculations.

Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Information other than the consolidated financial statements and auditor's report thereon
The consolidated financial statements do not include other information.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Independent auditor's report (continued)
To the shareholders of FWD Group Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Ernst & Young
Hong Kong
15 March 2019

A member firm of Ernst & Young Global Limited

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
REVENUE			
Gross premiums		3,174,276	1,981,252
Reinsurers' share of gross premiums		(464,610)	(145,048)
Change in unearned premiums		(2,681)	2,069
Net premiums	7	2,706,985	1,838,273
Fees and commission income		257,882	72,824
Net deferred commission income movement	15	(207,103)	(53,372)
Investment return	8	127,703	182,843
Other operating revenue		13,967	9,643
TOTAL REVENUE		2,899,434	2,050,211
BENEFITS, CLAIMS AND EXPENSES			
Net benefits and claims	9	(2,333,026)	(1,676,452)
Amortization of intangible assets	14	(38,332)	(37,130)
Net deferred acquisition cost movement	15	565,831	286,798
Finance costs		(10,357)	(10,862)
Commission and commission related expenses	10	(709,542)	(365,914)
Other operating and administrative expenses	11	(576,793)	(398,174)
TOTAL BENEFITS, CLAIMS AND EXPENSES		(3,102,219)	(2,201,734)
Share of gains in associate and joint venture	22	2,083	1,614
LOSS BEFORE TAX		(200,702)	(149,909)
Income tax income/(expense)	12(a)	37,478	(12,240)
LOSS FOR THE YEAR		(163,224)	(162,149)
Loss for the year attributable to:			
Shareholders		(162,663)	(160,862)
Non-controlling interests		(561)	(1,287)
		(163,224)	(162,149)

continued/...

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
LOSS FOR THE YEAR		(163,224)	(162,149)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Change in fair value	18.1	(93,600)	86,748
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8, 18.1	5,491	(15,964)
- impairment losses	8, 18.1	954	-
Income tax effect	12(b)	16,655	(12,958)
		(70,500)	57,826
Cash flow hedges:			
Effective portion of changes in fair value		1,177	14,217
Income tax effect	12(b)	(235)	(1,172)
		942	13,045
Exchange differences on translation of foreign operations		2,541	42,741
		2,541	42,741
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(67,017)	113,612
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit obligation		106	924
Income tax effect	12(b)	164	(287)
		270	637
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		270	637
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(66,747)	114,249
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(229,971)	(47,900)
Total comprehensive income attributable to:			
Shareholders		(229,384)	(46,761)
Non-controlling interests		(587)	(1,139)
		(229,971)	(47,900)

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
ASSETS			
Goodwill	13	30,113	53,953
Intangible assets	14	848,265	826,393
Deferred acquisition cost	15	1,112,199	544,719
Plant and equipment	16	40,132	27,188
Investment properties	17	305,788	-
Financial assets			
Available-for-sale financial assets	18.1	9,462,267	8,595,869
Financial assets at fair value through profit or loss	18.2	426,930	263,503
Loans and receivables	18.3	571,878	501,557
Derivative financial instruments	18.4	28,297	2,691
Reinsurance assets	26	415,823	136,799
Investment in associate and joint venture	22	47,990	49,299
Prepayments, deposits and other assets	23	259,986	204,473
Deferred tax assets	12(b)	8,812	96
Insurance receivables	24	332,650	297,355
Due from related parties	32(b)	158,697	97,484
Cash and cash equivalents	25	728,532	650,996
TOTAL ASSETS		14,778,359	12,252,375
LIABILITIES			
Insurance contract liabilities	26	11,747,488	9,675,996
Pension benefit obligation		7,406	6,637
Due to related parties	32(b)	33,141	21,397
Deferred commission income	15	262,181	53,214
Borrowings	27	270,761	248,825
Derivative financial instruments	18.4	12,522	11,126
Deferred tax liabilities	12(b)	34,319	103,267
Insurance and other liabilities	28	704,358	511,991
TOTAL LIABILITIES		13,072,176	10,632,453
EQUITY			
Issued capital	29	297	286
Share premium	29	1,666,314	1,360,863
Direct capital instrument	29	538,927	539,123
Capital redemption reserve	29	990	990
Share-based payment reserve	29	24,523	13,557
Legal reserve	29	4,091	2,981
Cash flow hedge reserve		(1,756)	(2,698)
Available-for-sale financial assets revaluation reserve	29	103,522	174,022
Defined benefit obligation revaluation reserve	29	(4)	(274)
Foreign currency translation reserve	29	10,460	7,931
Accumulated losses		(641,498)	(477,763)
TOTAL EQUITY		1,705,866	1,619,018
Non-controlling interests		317	904
TOTAL LIABILITIES AND EQUITY		14,778,359	12,252,375

Ronald Arculli

Director

Director

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$'000

	Notes	Issued capital	Share premium	Direct capital instrument	Capital redemption reserve	Share-based payment reserve	Legal reserve	Cash flow hedge reserve	Available-for-sale financial assets revaluation reserve	Defined benefit obligation revaluation reserve	Foreign currency translation reserve	Retained earnings/ (accumulated losses)	Non controlling Interest	Total equity
1 January 2017		269	861,853	-	990	11,404	2,553	(15,743)	116,196	(911)	(34,412)	(316,723)	2,043	627,519
Issuance of shares	29	17	499,010	-	-	(4,085)	-	-	-	-	-	-	-	494,942
Issuance of direct capital instrument	29	-	-	539,123	-	-	-	-	-	-	-	-	-	539,123
Change in share-based payment reserve	33	-	-	-	-	6,238	-	-	-	-	-	-	-	6,238
Total comprehensive income for the year		-	-	-	-	-	-	13,045	57,826	637	42,741	(160,862)	(1,287)	(47,900)
Transfer to legal reserve		-	-	-	-	-	177	-	-	-	-	(177)	-	-
Change in foreign currency translation reserve		-	-	-	-	-	251	-	-	-	(398)	(1)	148	-
31 December 2017		286	1,360,863	539,123	990	13,557	2,981	(2,698)	174,022	(274)	7,931	(477,763)	904	1,619,922
Issuance of shares	29	11	305,451	-	-	(5,979)	-	-	-	-	-	-	-	299,483
Issuance of direct capital instrument	29	-	-	(196)	-	-	-	-	-	-	-	-	-	(196)
Change in share-based payment reserve	33	-	-	-	-	16,945	-	-	-	-	-	-	-	16,945
Total comprehensive income for the year		-	-	-	-	-	-	942	(70,500)	270	2,541	(162,663)	(561)	(229,971)
Transfer to legal reserve		-	-	-	-	-	1,071	-	-	-	-	(1,071)	-	-
Change in foreign currency translation reserve		-	-	-	-	-	39	-	-	-	(12)	(1)	(26)	-
31 December 2018		297	1,666,314	538,927	990	24,523	4,091	(1,756)	103,522	(4)	10,460	(641,498)	317	1,706,183

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		(200,702)	(149,909)
Adjustments for:			
Dividend income	8	(21,192)	(15,660)
Interest income	8	(166,067)	(124,445)
Net realized (gain)/loss on disposal of financial assets	8	31,727	(7,395)
Net realized loss on disposal of a joint venture	8	2,895	-
Fair value (gain)/loss on financial assets	8	15,133	(13,438)
Fair value (gain) on investment properties	8	(1,482)	-
Depreciation of plant and equipment	16	12,450	9,103
Loss on disposal of plant and equipment		16	99
Loss on disposal of intangible assets		701	-
Impairment on available-for-sale financial assets	8	954	-
(Reversal of impairment)/impairment on loan and receivables	8	(3,604)	488
Amortization of intangible assets	14	38,332	37,130
Finance cost		10,357	10,862
Share of (gain) of associate	22	(2,083)	(1,614)
P&L impact of share-based payment	33	16,945	6,238
Net deferred commission income movement	15	207,103	53,372
DAC movement	15	(565,831)	(286,798)
Impairment of goodwill	13	22,758	13,361
Impairment of VOBA	14	387	-
Foreign exchange loss/(gain)		(27,861)	35,688
		(629,064)	(432,918)
(Increase)/decrease in reinsurance assets		(273,782)	(87,492)
(Increase)/decrease in prepayments, deposits and other assets		(50,889)	9,938
(Increase)/decrease in insurance receivables		(35,295)	(20,212)
(Increase)/decrease in amounts due from related parties		(61,213)	(34,035)
(Decrease)/increase in insurance contract liabilities		1,888,690	1,286,085
(Decrease)/increase in amounts due to related parties		11,744	3,721
(Decrease)/increase in insurance and other liabilities		97,274	59,806
(Decrease)/increase in accrued commissions		(1,765)	20,220
(Decrease)/increase in investment creditors		71,861	(4,446)
(Decrease)/increase in net pension scheme liabilities		1,039	1,565
Cash flows generated from operations		1,018,600	802,232
Dividend received from investments		60,469	15,738
Interest received		196,057	148,170
Investment expenses paid		(5,161)	(4,459)
Income tax paid		-	(3,080)
Net cash flows from operating activities		1,269,965	958,601

continued/...

FWD GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	6	(961)	(330,451)
Acquisition of interest in associate and joint venture	22	-	(1,549)
Purchases of intangible assets	14	(57,607)	(678,794)
Purchases of plant and equipment		(23,147)	(13,596)
Purchases of investment properties	17	(304,962)	-
Proceeds from disposals of intangible assets		821	-
Proceeds from disposals of plant and equipment		40	1,221
Purchases of financial assets		(4,382,292)	(1,630,840)
Proceeds from disposal and maturities of financial assets		3,265,490	825,026
Decrease/(increase) in pledged deposits		(13,864)	(6)
Net cash flows used in investing activities		(1,516,482)	(1,828,989)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of convertible preference shares	29	299,483	494,942
Issue of direct capital instrument	29	-	539,123
Redemption of bank credit facilities	27	(250,000)	-
Subscription of bank credit facilities	27	270,072	-
Finance costs paid on borrowings		(10,308)	(8,925)
Net cash flows from financing activities		309,247	1,025,140
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		62,730	154,752
Cash and cash equivalents at beginning of the year		650,932	386,055
Cash and cash equivalents acquired in a business combination	6	942	110,125
Effect of foreign exchange rate changes, net		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	714,604	650,932
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		649,860	563,129
Non-pledged time deposits with original maturity of less than three months when acquired		64,744	87,803
Cash and cash equivalents as stated in the statement of cash flows	25	714,604	650,932

1. CORPORATE INFORMATION

FWD GROUP LIMITED (the "Company") was incorporated on 3 January 2013 in the Cayman Islands, with its registered office at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY-1205, Cayman Islands. The Company's principal place of business address in Hong Kong is Room 1902, 19/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are to provide products and services focusing on life insurance, general insurance and investment services.

PCGI Intermediate Holdings Limited and PCGI Holdings Limited, companies incorporated in the Cayman Islands, are the Company's immediate and ultimate holding companies, respectively, as at the end of the reporting period. PCGI Holdings Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 13.5% (2017:14.0%) shareholder of the Company.

The consolidated financial statements were approved and authorized for issuance by the board of directors on 15 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention, except for the re-measurement of available-for-sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value. They are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of revised standards and interpretations effective as of 1 January 2018 as described below.

(a) The following are amendments to standards which the Group elected to apply the temporary exemption option for the first time for the financial year beginning 1 January 2018. The Group has assessed its eligibility and elected to apply the temporary exemption option. Details of these standards and additional disclosures are further set out in this section.

IFRS 4 Amendments	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]

[1] Refer to page 16 and 17 for more details.

(b) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2018 and have no material impact for the Group:

IFRS 9	Financial Instruments[1]
IFRS 15	*Revenue from Contracts with Customers*
IAS 40 Amendments	*Transfers of Investment Property*
IFRS 2 Amendments	*Classification and Measurement of Share-based Payment Transactions*
IAS 28 Amendments	*Investment in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
IAS 1 Amendments	*First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions of first-time adopters*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*

[1] The Group is allowed to defer IFRS 9 adoption to the financial year beginning on 1 January 2021 under IFRS 4 Amendments

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) The following relevant new standards, interpretations and amendments to standards have been issued but are not effective for the financial year ended 31 December 2018 and have not been early adopted (the financial years for which the adoption is required are stated). They are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures upon them becoming effective:

IFRS 9 Amendments	*Amendments to IFRS 9 – Prepayment Features with Negative Compensation*[1]
IAS 28 Amendments	*Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures*[2]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3 and IAS 12*[2]
IFRS 16	*Leases*[2, 5]
IFRS 3 Amendments	*Definition of a Business*[3]
IAS 1 and IAS 8 Amendments	*Definition of Material*[3]
IFRS 10 and IAS 28	*Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets* between an *Investor and its Associate of Joint Venture*[4]

1 The Amendments are effective for annual periods beginning on or after 1 January 2019, however, if the Group continues to qualify for the IFRS 9 deferral, the effective date of application of IFRS 9 can be deferred until 2021

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2020

4 Effective date deferred indefinitely

5 Refer to page 19 for more details

(d) The following relevant new standards have been issued but are not effective for the financial year ended 31 December 2018 and have not been early adopted (the financial year for which the adoption is required is stated).

IFRS 17	*Insurance Contracts*[1]

1 Effective for annual periods beginning on or after 1 January 2021 (IASB proposed one year delay in effective date to 1 January 2022)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Temporary exemption from IFRS 9:

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. During 2018, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity except for those financial assets carried at fair value through OCI and will perform a detailed assessment in the future to determine the extent.

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. During 2018, the Group performed a reassessment of the amendments due to change from its business combination activities and concluded that its activities continue to be predominately connected with insurance as at 31 December 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Temporary exemption from IFRS 9 (continued):

The Group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) to annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9. Therefore, the Group continues to apply IAS 39 to its financial assets and liabilities in these financial statements. The Group meets the eligibility criteria, as follows:

- The Group has not previously applied any versions of IFRS 9; and
- The Group's activities were predominantly connected with insurance at the assessment date required by IFRS 4 amendment (annual reporting date that immediately precedes 1 April 2016, i.e. 31 December 2015) based on eligibility assessment that the carrying amount of liabilities arising from contracts within scope of IFRS 4 was less than 90% but greater than 80% (i.e. 87%) of the total carrying amount of all its liabilities. The Group has not engaged in significant activities unconnected with insurance; the reason the percentage of liabilities was less than 90% of liabilities arising from contracts within scope of IFRS 4 as of 31 December 2015 was due to the higher percentage of bank credit facilities (nearly 9% of total carrying amount of all its liabilities) for funding the Groups' insurance acquisitions at that time. As of 31 December 2018, the Group has 96% (31 December 2017: 96%) of liabilities arising from contracts within scope of IFRS 4 of the total liabilities.

The following disclosure is provided to respond to the IFRS 4 amendment requirement when IFRS 9 adoption is deferred.

For the following presentation, the Group's financial assets are separated into the following two groups:

(i) financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) in accordance with IFRS 9 and are not held for trading or managed on a fair value basis, which consist of loans and receivables, deposits and other assets, insurance receivables, due from related parties and cash and cash equivalents, and
(ii) financial assets other than those specified in (i), which consist of derivative assets, debt securities and equity securities.

The following table shows the fair value and change in fair value of these two groups of financial assets.

US$'000

	As at 31 December 2018 Fair value	For the year ended 31 December 2018 Change in fair value
Financial assets that meet SPPI criteria and are not held for trading or managed on a fair value basis	10,603,302	(107,785)
Others	1,562,004	(59,674)
Total	12,165,306	(167,459)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Temporary exemption from IFRS 9 (continued):

The following table sets out the credit quality analysis for financial assets that meet the SPPI criteria and are not held for trading or managed on fair value basis. The amounts presented represent gross carrying amounts determined in accordance with IAS 39.

US$'000

	As at 31 December 2018
AAA	278,311
AA	976,000
A	4,442,654
BBB	3,455,753
BB	430,059
B	83,281
Not rated	904,448
Total	10,570,506

Note: As at 31 December 2018, the fair value of financial assets that do not have low credit risk was US$267,961,000.

Financial assets are considered to have low credit risk if:

- the financial instruments have a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow:

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts, which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period
- Amounts that the policyholder will receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group is in process of implementing IFRS 17 and is assessing the impact of IFRS 17. The Group expects that the new standard will result in important changes to the accounting policies for insurance contract liabilities of the Group, and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

In November 2018, the IASB proposed one year delay in the effective date of both IFRS 17 and IFRS 9 to 1 January 2022. The proposed deferral is subject to public consultation, which is expected in 2019.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow (continued):

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured as the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties, while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liabilities will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively, by the Group.

The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item as the corresponding underlying assets would be presented if they were owned. Other than certain requirements which are also applicable to lessors, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$69,388,000 as disclosed in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify as low value or short-term leases. The Group will also recognize depreciation expense and interest expense for those leases.

In addition, the Group currently considers refundable rental deposits paid of US$14,553,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and (IFRIC)-Int 4, Determining whether an Arrangement contains a Lease, and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and (IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained earnings/(accumulated losses) without restating comparative information.

A summary of the significant accounting policies adopted by the Group in the preparation of the Group's consolidated financial statements is set out below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries

A subsidiary is an entity (including structured entities) directly or indirectly controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) contractual arrangements with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it de-recognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Investments in associates and joint ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group’s investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

When an investment in an associate is a venture capital organization, a mutual fund, unit trust or similar entity, including investment-linked insurance funds (i.e. an investment entity) and the investment entity associate applies fair value measurement to its subsidiaries, the Group retains the fair value measurement applied by the investment entity associate to its interests in subsidiaries when applying the equity method.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Business combinations and goodwill (continued)
Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. Any surplus of the Group's interest in the acquiree's net assets over the cost of acquisition is, after reassessment, credited to profit or loss as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts

Product classification
Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Some insurance contracts, referred to as participating contracts, have discretionary participation features, "DPF", which may entitle the customer to receive, as a supplement to guaranteed benefits, significant additional non-guaranteed benefits, such as policyholder dividends or bonuses. These contracts are distinct from other insurance contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The Group's products may be divided into the following main categories:

Policy type	Description of benefits payable	Basis of accounting for insurance contract liabilities
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. Most of the products pay annual cash dividends. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience.	Depending on the particular features and circumstances of the traditional participating insurance contracts, the insurance contract liabilities make provision for either: i) the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders; or ii) the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition a reserve ("Undistributed Participating Policyholder's Earning Account") is maintained to ensure that profits that will eventually be returned to policyholders through the payment of dividends/bonuses in later policy years are not reported as current income by the Group. In both cases, deferred profit liabilities for limited payment contracts are also recognized.
Non-participating life assurance, annuities and other protection products	Benefits payable are not at the discretion of the insurer.	Insurance contract liabilities reflect the present value of future policy benefits to be paid and the future administration expenses that are directly related to the contract, less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognized.
Investment-linked	These may be primarily savings products or may combine savings with an element of protection.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

The basis of accounting for life insurance contracts is further discussed below.

2.3.1 Life insurance contracts

Premiums

For single premium business, premiums are recognized as revenue on the date when the policy becomes effective. Regular premiums from life insurance contracts, including participating policies, investment-linked contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognize profits over the estimated life of the policies. For limited pay contracts, premiums are recognized in profit or loss when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Fees and commission income

Life insurance contract policyholders are charged fees for policy administration services, investment management services and surrenders.

The fees are recognized as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, these are deferred and recognized in profit or loss as the service is provided over the term of the contract. Initial and other front end fees are also deferred and recognized over the term of the contract.

Other fees

Other fees are recognized when the services have been rendered.

Deferred Acquisition Costs ("DAC")

The costs of acquiring new insurance contracts, including commissions and distribution costs, underwriting and other policy issue expenses which vary with, and are primarily related to, the production of new business or renewal of existing business, are deferred as an asset.

DAC is evaluated for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. DAC is evaluated for recoverability at least annually thereafter in the liability adequacy test together with the provision for life insurance liabilities and Value of Business Acquired ("VOBA"). Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in profit or loss.

DAC for traditional life insurance and annuity policies is amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

DAC for investment-linked contracts is amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. The interest rate used to compute the present value of revised estimates of expected gross profits is locked-in at policy inception. Deviations of actual results from estimated experience are reflected in earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

2.3.1 Life insurance contracts (continued)

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortized using the same methodology and assumptions used to amortize acquisition costs when the sales inducements:

• are recognized as part of insurance contract liabilities;
• are explicitly identified in the contract on inception;
• are incremental to amounts credited on similar contracts without sales inducements; and
• are higher than the expected ongoing crediting rates for periods after the inducement.

Options and guarantees

Options and guarantees within insurance contracts are treated as derivative financial instruments which are closely related to the host insurance contract and are therefore not separated subsequently.

Benefits and claims

Life insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, reinsurance recoveries, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for reinsurance recoveries, and any adjustments to claims outstanding from previous years. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims and policyholder bonuses. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Life insurance contract liabilities

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies. Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

The Group accounts for participating policies by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon the Group's rules on profit distribution. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

For investment linked contracts, contract liabilities are directly linked to the underlying investment assets, which are portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) and an unearned revenue liability and sales inducement liability where applicable. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described in "Fees and commission income" above.

The unearned revenue liability arising from insurance contracts represents upfront fees and other non-level charges deferred and released to the consolidated statement of profit or loss and other comprehensive income over the estimated life of the business.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

2.3.1 Life insurance contracts (continued)

Liability adequacy testing
At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities.

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. For life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on purchased insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortized balances of deferred acquisition costs and value of business acquired on purchased insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortized balances for the specific portfolio of contracts to zero, a deficiency still exists, the liability is increased by the amount of the remaining deficiency.

Reinsurance
The Group cedes insurance risk in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognized, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognizes that impairment loss in the consolidated profit or loss and other comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Reinsurance assets or liabilities are de-recognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Value of business acquired (VOBA)
VOBA is an asset that reflects the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance contracts (continued)

2.3.1 Life insurance contracts (continued)

Other assessments and levies
The Group is potentially subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance contract liabilities but are included under “Insurance and other liabilities” in the consolidated statement of financial position.

2.3.2 General Insurance contracts
Premiums
General insurance premiums written are recognized at policy inception and earned on a pro rata basis over the term of the policy related coverage.

Deferred acquisition costs
For general insurance, DAC is amortized on a straight line basis over the life of the contracts and de-recognized when the related contracts are settled or disposed of.

Benefits and claims
General insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous years.

General insurance contract liabilities
These liabilities include the provisions for outstanding claims, unearned premiums and unexpired risks. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs, reduced by the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is determined at the end of the reporting period using case estimates, supplemented by a range of standard actuarial claim projection techniques based on empirical data on current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophic reserves is recognized. The liability is de-recognized when the obligation to pay a claim expires, is discharged or is cancelled.

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium, which includes premiums received for risks that have not yet expired. The change in the provision for unearned premium is taken to profit or loss such that revenue is recognized over the period of risk using the 365 days method.

2.3.3 Insurance receivables
Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is the present value of estimated future cash flows discounted at the original effective interest rate. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

Insurance receivables are de-recognized when the de-recognition criteria for financial assets, as described in "De-recognition of financial instruments" below, have been met.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Reinsurance contracts

Product classification
Reinsurance contracts are defined as those containing significant insurance risk at the inception of the contract. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as a reinsurance contract, it remains a reinsurance contract for the rest of its life time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2.4.1 Life reinsurance contracts
Premiums
Premiums are recognized as income when risk coverage is provided to ceding companies.

Deferred Acquisition Costs
The costs of acquiring new reinsurance contracts, including commissions and distribution costs, underwriting and other expenses which vary with, and are primarily related to, the production of new business or renewal of existing business, are deferred as an asset and amortized on the straight-line basis over the terms of life reinsurance policies.

Life reinsurance contract liabilities
Reinsurance contract liabilities represent the estimated future benefit liability for the life reinsurance policies. Future benefits are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid to cedants, less the present value of estimated future net premiums to be collected from cedants.

Liability adequacy test
At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of reinsurance liabilities.

The liability adequacy test compares the carrying value of reinsurance contract liabilities less deferred acquisition costs with the fair value of the liabilities from the reinsurance portfolio recognized. If there is a deficiency, the unamortized balances of deferred acquisition costs are written down to the extent of the deficiency. If, after writing down the unamortized balances of deferred acquisition costs to zero, a deficiency still exists, the liability is increased by the amount of the remaining deficiency.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments

2.5.1 Fair value measurement

The Group measures its derivative financial instruments, debt instruments classified as available for sale or fair value through profit or loss, and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received in the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.2 Initial recognition and measurement

Financial assets

Financial assets within the scope of IAS 39 are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial investments, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied. When financial assets are recognized initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, loans and receivables, insurance and other receivables, amounts due from related parties, quoted and unquoted financial instruments, and derivative financial instruments.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, include directly attributable transaction costs.

The Group's financial liabilities include amounts due to related parties, insurance and other liabilities, borrowings and derivative financial instruments.

2.5.3 *Subsequent measurement*

Financial assets

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets designated upon initial recognition at fair value through profit or loss are so designated only if the criteria under IAS 39 are satisfied. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss. These net changes in fair value do not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.3 *Subsequent measurement (continued)*

Financial assets at fair value through profit or loss (continued)
Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are included in investment income in profit or loss.

Held-to-maturity financial assets
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are included in investment income in profit or loss.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is de-recognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. For available-for-sale financial debt securities, the difference between their cost and par value is amortized using the effective interest rate method. Interest and dividends earned while holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognized in profit or loss as investment income in accordance with the policy set out for "Revenue" below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.3 *Subsequent measurement (continued)*
Available-for-sale financial assets (continued)
When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Financial liabilities
The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial liabilities designated upon initial recognition at fair value through profit or loss are so designated only if the criteria of IAS 39 are satisfied. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortized cost
Borrowings are stated at amortized cost, with any difference between net proceeds and redemption value recognized in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest rate amortization process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.4 De-recognition of financial instruments
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
Financial liabilities and insurance payables are de-recognized when the obligation under the liability is discharged or cancelled, or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized as profit or loss.

2.5.5 Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.6 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to investment income in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.6 Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group generally considers the number of months the cost of an available-for-sale investment is below its fair value and also the ratio of fair value over cost in determining an impairment provision. In addition, the Group evaluates other factors, such as the share price volatility. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.5.7 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, to manage currency or other risks within the Group. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current, or separated into current or non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Instruments (continued)

2.5.7 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the statement of profit or loss within "Finance costs", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes the designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the statement of profit or loss over the residual period to maturity.

Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the statement of profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the statement of profit or loss (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the statement of profit or loss in the same period or periods during which the hedged forecast transaction affects the statement of profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, or the Group revokes the designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the statement of profit or loss.

2.5.8 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation

These financial statements are presented in United States dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than United States dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at exchange rates prevailing at the end of the reporting period and profit or loss and cash flow items are translated into United States dollars at the weighted average exchange rates for the period. The resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

2.7 Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment if there has been a significant change in the expected pattern of consumption of future economic benefits embodied in the intangible asset. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets in the consolidated statement of financial position include the access fees paid to bancassurance partners. The access fees are paid for the distribution rights over the contract term and are amortized over the initial contract term. These amortization charges are subsequently recorded and amortized as DAC. Details of the amortization method of the access fees are set out in note 14(b) of the consolidated financial statements.

2.8 Plant and equipment and depreciation

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Plant and equipment and depreciation (continued)

Depreciation is calculated on a straight-line basis to write off the cost of each item of plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	20%
Furniture and fixtures	20-33⅓%
Computer equipment	20-33⅓%
Leasehold improvements	Over the lease terms

Where parts of an item of plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of plant and equipment including any significant part initially recognized is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is de-recognized is the difference between the net sales proceeds and the carrying amount of the relevant assets.

2.9 Investment property

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

2.10 Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value, less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an asset other than goodwill is reversed only if there has been a change in the estimate used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Income taxes

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Revenue

Investment income
Interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex-dividend.

Realized gains and losses recorded in profit or loss
Realized gains and losses recorded in profit or loss on investments include gains or losses on financial assets. Gains and losses are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction. The costs of partial sales of investments with multiple acquisition dates are determined by using the weighted average principle.

Fees and commission income
Fees and commission income consist primarily of administration service fees and surrender charges, fund management fees, income from any incidental non-insurance activities and commissions on reinsurance ceded. Reinsurance commissions are deferred in the same way as acquisition costs. All other fees and commission income are recognized as the services are provided.

Dividend income is recognized when the shareholders' right to receive payment has been established.

2.13 Employee benefits

Paid leave carried forward
The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of a reporting period is permitted to be carried forward and utilized by the respective employees in the following year. An accrual is made at the end of a reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits schemes-Defined Contribution Plans
The Group operates a defined contribution retirement benefits scheme for those employees who are eligible and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions becoming fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefits (continued)

Retirement benefits schemes-Defined Benefit Plans
The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Re-measurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation in the consolidated statement of profit or loss and other comprehensive income:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income.

Long service payments
Certain employees of the Group are eligible for long service payments in the event of the termination of their employment according to certain local Employment Ordinances. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in those Employment Ordinances.

Share-based compensation
Together with a share-option award plan initiated by the Group in 2018, the Group offers a number of share-based compensation plans (share award plan and share-option award plan) for certain key employees as part of a compensation plan aligned with services provided in achieving shareholder value targets. These share-based compensation plans are equity-settled plans and the compensation expense charged to the consolidated statement of profit or loss and other comprehensive income is based upon the fair value of the shares granted, the vesting period and the vesting conditions. The cost of the plans is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

At each period end, the Group assesses the number of shares and share-options that are expected to vest from those so far granted. Any impact arising from revisions to original estimates is recognized in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognized as a separate award, and the fair value of each tranche is recognized over the applicable vesting period.

For the share award plan, the Group utilizes an appraisal value method (Embedded Value plus a multiple of Value of New Business) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

For the share-option award plan, the Group estimates the fair value of share options using the Black-Scholes model and an assessment of performance of conditions (IRR achievement) to calculate the fair value of the share-option awards, taking into account the terms and conditions upon which the awards were granted.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Provisions and contingencies

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognized as a separate asset only when the reimbursement is probable.

The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the expected future expenditures required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

2.15 Leases

Group as a lessee
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease terms.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a)

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. Key judgments, estimates and assumptions are described below.

(a) Income taxes
Significant management judgment on the future tax treatment of certain transactions is required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account developments in tax laws. Tax laws evolve over time, and in some cases taxation positions are uncertain because the tax laws are subject to varied interpretation. When this is the case, management seeks to adopt a supportable and prudent tax treatment after consultation with professional tax advisers. However, as judicial and non-judicial interpretations develop, these taxation positions may change in the future.

(b) Valuation of deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits with future tax planning strategies. Further details are contained in note 12(b) to the financial statements.

(c) Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to calculate the actuarial appraisal value based on (i) embedded value with respect to the in-force business together with (ii) the value of future new business, and also to choose a suitable discount rate in order to calculate the present value of those expected future profits. Further details regarding goodwill are provided in note 13.

(d) Life insurance contract liabilities
The Group calculates insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation (where appropriate) for mortality, morbidity, expected investment yields, surrenders and expenses set at the policy inception date (or acquisition date for acquired insurance contracts). These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by denominated currency, year of issuance and product. Mortality, morbidity, surrender and expense assumptions are based on the Group's experience. The Group exercises significant judgment in making appropriate assumptions.

The judgments exercised in the valuation of insurance contract liabilities affect the amounts recognized in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policies, key risks and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.3, 2.4, 26 and 35.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(e) General insurance contract liabilities

For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims is the use of past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Similar judgments are made in assessing the adequacy of the unearned premium provision, whereby assessments are made of the expected future claim costs arising from the unexpired portion of contracts in force at the end of the reporting period.

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of general insurance contract liabilities are provided in notes 2.3.2, 26 and 35.

(f) Deferred acquisition costs

The judgments exercised in the deferral and amortization of acquisition costs affect amounts recognized in the consolidated financial statements as deferred acquisition costs and insurance contract benefits.

As described in note 2.3, deferred acquisition costs for traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As described in note 2.3, deferred acquisition costs for investment-linked contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits to be realized over the life of the contract. Significant judgment is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favorable investment performance, previously expensed acquisition costs are reversed (but not in excess of the amount initially deferred).

Additional details of deferred acquisition costs are provided in notes 2.3 and 15.

(g) Value of business acquired

The judgments exercised in the valuation and amortization of the fair value of insurance contracts of the acquired company in business combinations that affect amounts recognized in the consolidated financial statements as value of business acquired.

As described in note 2.3, value of business acquired is an asset that reflects the present value of estimated net cash flows before tax embedded in the insurance contracts of an acquired company which existed at the time of business combination. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

Additional details of value of business acquired are provided in notes 2.3 and 14.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(h) Liability adequacy testing
The Group evaluates the adequacy of its insurance contract liabilities at least annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed on a portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

The judgments exercised in liability adequacy testing affect amounts recognized in the consolidated financial statements such as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and liabilities.

(i) Fair values of financial assets
The Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions, values obtained from current bid prices of comparable investments and expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

Further details of the fair values of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 2.5, 18 and 35.

(j) Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. The Group assesses at each reporting date whether there is objective evidence that a financial asset, or a group of financial assets is impaired. Objective evidence that a financial asset, or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- A significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
    - Adverse changes in the payment status of issuers; or
    - Economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

Further details of the impairment of financial assets during the year are provided in notes 2.5.6 and 18.

(k) Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(l) Share-based compensation

The Group has adopted two share-based compensation plans to retain, motivate and align the interests of eligible officers of the Group, the share award plan and the share-option award plan. These share-based compensation plans are accounted for as equity-settled plans under which shares and share-options are awarded.

i. Share award plan

The Group utilizes an appraisal value method (Embedded Value ("EV") plus a multiple of Value of New Business ("VNB")) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

The Group determines appraisal value on the following basis:

- For life insurance businesses, the appraisal value equals EV plus a multiplier of VNB for the calendar year at the end of each performance period. The multiplier was agreed with the shareholders for the purpose of the IRR calculation. Adjustments are made to the reported EV to exclude the impact of certain items not within control of management or not anticipated in the original business plan.
- For non-life businesses, the appraisal value is calculated as the net asset value plus a multiplier of the net profits for the calendar year at the end of each performance period.
- For non-operating entities, the appraisal value is equal to the net asset value for the calendar year at the end of each performance period.

The Group takes into account all cash flow items on a monthly basis during the performance period when assessing the IRR achievement. Certain assumptions were made when constructing the monthly cash flows for the purpose of the IRR calculation.

The judgments exercised in the determination of appraisal value and the assessment of IRR achievement affect the amounts recognized in the consolidated financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.13 and 33.

ii. Share-option award plan

The Group estimates the fair value of share options using the Black-Scholes model and an assessment of performance of conditions (IRR achievement) to calculate the fair value of the share-option awards, taking into account the terms and conditions upon which the awards were granted.

The Group determines the fair value of share options by following input:

- Dividend yield
- Expected share price volatility
- Risk-free interest rate
- Expected life of the share options
- Appraisal value per share, using the same valuation methodology as is used in the share award plan

The judgments exercised in the determination of share-option fair value and the assessment of IRR achievement affect the amounts recognized in the consolidated financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.13 and 33.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(m) Fair value of investment in an associate

The Group has elected to retain the fair value measurement applied by the investment entity associate to its interests in subsidiaries when applying the equity method. The Group obtains valuation of the underlying portfolio entities of the associate based on actual funding raised from or committed by third parties to the portfolio entities. Further details are provided in note 22.

Fair value estimates in the underlying portfolio entities are based on the concept of an "orderly transaction", which assumes that the funding raised from or committed to by a third party is made with reasonable knowledge of relevant facts and the ability to perform sufficient due diligence to make an orderly investment decision, and that the third party is not acting under any compulsion to engage in the transactions. The ability to conduct an orderly transaction is key to ensuring market risk is properly accounted for in a funding test. The uncertainty of committed funding may add risk to fair value estimates in the underlying portfolio entities.

(n) Fair value of investment properties

The investment properties are stated at fair value based on valuations carried out by independent qualified professional appraisers. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalization rates and market rents. Further details are provided in note 17

4. EXCHANGE RATES

The Group's principal operations during the reporting years are Japan, Thailand, Indonesia, the Philippines and Singapore. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rate	
	Year ended 31 December 2018	Year ended 31 December 2017
Japan	110.434	112.175
Thailand	32.319	33.934
Indonesia	14,234.242	13,380.881
The Philippines	52.691	50.403
Singapore	1.349	1.381

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rate	
	31 December 2018	31 December 2017
Japan	109.913	112.574
Thailand	32.360	32.620
Indonesia	14,410.480	13,540.499
The Philippines	52.500	49.858
Singapore	1.362	1.336

5. SEGMENT INFORMATION

The reportable segments of the Group correspond to each of the geographical markets in which the Group operates. Each of the reportable segments, other than “Corporate and Others”, writes life insurance business in its local market. Certain businesses within the Other Markets segment also write general insurance business. The reportable segments are Thailand, Japan, Other Markets and Corporate and Others. Insurance operations in Thailand and Japan are the Group’s most significant operations, with gross premium written in Thailand and Japan representing 27% and 52% of the Group’s gross premium written, respectively. Other Markets includes the Group’s insurance operations in the Philippines, Indonesia, Singapore and reinsurance operations in the Cayman Islands. None of those insurance operations are individually significant and have been presented in one segment.

The remaining operations of the Group, together with transactions of the holding and intermediate holding companies and consolidation adjustments, are included in Corporate and Others.

US$'000

	Year ended 31 December 2018				
	Thailand	Japan	Other Markets	Corporate and Others	Total
Net premiums	862,187	1,224,901	619,897	-	2,706,985
Fees and commission income	9,322	35,237	6,220	-	50,779
Investment return	122,052	24,334	(16,585)	(2,098)	127,703
Other operating revenue	498	1,580	3,455	8,434	13,967
TOTAL REVENUE	994,059	1,286,052	612,987	6,336	2,899,434
Net benefits and claims	(784,180)	(1,091,929)	(456,917)	-	(2,333,026)
Amortization of intangible assets	(10,313)	(19,685)	(6,138)	(2,196)	(38,332)
Net deferred acquisition cost movement	63,147	240,135	262,549	-	565,831
Finance costs	-	-	-	(10,357)	(10,357)
Commission and commission related expenses	(143,457)	(269,661)	(296,424)	-	(709,542)
Other operating and administrative expenses	(77,272)	(247,893)	(127,391)	(124,237)	(576,793)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(952,075)	(1,389,033)	(624,321)	(136,790)	(3,102,219)
Share of gains in associate and joint venture	-	-	-	2,083	2,083
PROFIT/(LOSS) BEFORE TAX	41,984	(102,981)	(11,334)	(128,371)	(200,702)
Income tax (expense)/credit	(10,600)	48,207	(221)	92	37,478
NET PROFIT/(LOSS)	31,384	(54,774)	(11,555)	(128,279)	(163,224)
OTHER COMPREHENSIVE INCOME, NET OF TAX	(68,293)	9,101	(6,415)	(1,140)	(66,747)
TOTAL COMPREHENSIVE INCOME	(36,909)	(45,673)	(17,970)	(129,419)	(229,971)
TOTAL ASSETS	4,899,605	8,773,472	1,013,425	91,857	14,778,359
TOTAL LIABILITIES	3,764,235	8,164,313	825,806	317,822	13,072,176
TOTAL EQUITY	1,135,370	609,159	187,619	(225,965)	1,706,183

5. SEGMENT INFORMATION (continued)

US$'000

	Year ended 31 December 2017				
	Thailand	Japan	Other Markets	Corporate and Others	Total
Net premiums	751,008	825,591	261,674	-	1,838,273
Fees and commission income	7,108	7,031	5,313	-	19,452
Investment return	128,843	28,527	22,716	2,757	182,843
Other operating revenue	1,144	484	2,626	5,389	9,643
TOTAL REVENUE	888,103	861,633	292,329	8,146	2,050,211
Net benefits and claims	(679,362)	(736,893)	(260,197)	-	(1,676,452)
Amortization of intangible assets	(15,433)	(11,856)	(7,477)	(2,364)	(37,130)
Net deferred acquisition cost movement	78,916	102,419	105,463	-	286,798
Finance costs	-	-	-	(10,862)	(10,862)
Commission and commission related expenses	(155,765)	(108,947)	(101,202)	-	(365,914)
Other operating and administrative expenses	(72,766)	(139,436)	(103,679)	(82,293)	(398,174)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(844,410)	(894,713)	(367,092)	(95,519)	(2,201,734)
Share of gains in associate and joint venture	-	-	-	1,614	1,614
PROFIT/(LOSS) BEFORE TAX	43,693	(33,080)	(74,763)	(85,759)	(149,909)
Income tax (expense)/credit	(13,146)	4,225	(3,356)	37	(12,240)
NET PROFIT/(LOSS)	30,547	(28,855)	(78,119)	(85,722)	(162,149)
OTHER COMPREHENSIVE INCOME, NET OF TAX	113,760	(18,225)	1,034	17,680	114,249
TOTAL COMPREHENSIVE INCOME	144,307	(47,080)	(77,085)	(68,042)	(47,900)
TOTAL ASSETS	4,457,216	7,071,827	598,796	124,536	12,252,375
TOTAL LIABILITIES	3,284,938	6,736,239	439,773	171,503	10,632,453
TOTAL EQUITY	1,172,278	335,588	159,023	(46,967)	1,619,922

6. BUSINESS COMBINATION

On 2 September 2015, the Group acquired a 51% interest in the ordinary share capital of Edirect Insure Capital Limited ("EICL"). The Group's interest in EICL, as a joint venture, was accounted for using the equity method in the consolidated financial statements. On 13 December 2018 (the "Acquisition Date"), the Group acquired the remaining 49% interest in the ordinary share capital of Edirect Insure Capital Limited with a purchase consideration of US$961,000. ECIL's business is the distribution of insurance products online and via mobile platforms or by direct marketing methods in the ASEAN jurisdictions.

The fair values of the identifiable assets and liabilities of EICL as at the Acquisition Date were as follows:

US$'000	Notes	Fair value recognized at the Acquisition Date
Property, plant and equipment	16	50
Prepayments, deposits and other assets		610
Cash and cash equivalents		942
Payables and accruals		(688)
Total identifiable net assets at fair value		914
Goodwill on acquisition	13	513
Total		1,427
Fair value of 51% interest in EICL at the Acquisition Date	22	466
Satisfied by cash		961
Total		1,427

An analysis of the cash flows in respect of the acquisition is as follows:

US$'000	
Cash consideration	(961)
Cash and bank balances acquired	942
Net inflow of cash and cash equivalents included in cash flows from investing activities	(19)

7. NET PREMIUMS

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
(a) Gross premiums		
Life insurance contracts	2,746,406	1,888,971
Non-life insurance contracts	53,985	28,891
	2,800,391	1,917,862
Life reinsurance contracts	373,885	63,390
Total gross premiums	3,174,276	1,981,252
(b) Reinsurers' share of gross premiums		
Life insurance contracts	(440,111)	(137,559)
Non-life insurance contracts	(24,499)	(7,489)
Total reinsurers' share of gross premiums	(464,610)	(145,048)
(c) Change in unearned premiums		
Non-life insurance contracts	(2,681)	2,069
Net premiums	2,706,985	1,838,273

8. INVESTMENT RETURN

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	166,067	124,445
Dividend income	21,192	15,660
Rental income from investment properties (Note 17)	8,102	-
Investment income	195,361	140,105
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	75,627	54,641
Financial assets designated at fair value through profit or loss	-	44
Derivative financial instruments	33,407	20,444
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(81,118)	(38,677)
Financial assets designated at fair value through profit or loss	(827)	-
Derivative financial instruments	(54,566)	(29,057)
Net realized gains/(losses) on financial assets	(27,477)	7,395
Realized loss on disposal of a joint venture (Note 22)	(2,895)	-
Realized loss on disposal of a loan and receivable	(4,250)	-
Fair value gains/(losses) on derivative financial instruments	21,556	(10,130)
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	(36,689)	23,568
Net fair value gains/(losses) on financial assets	(15,133)	13,438
Fair value gain on investment properties (Note 17)	1,482	-
(Impairment)/Reversal of impairment of available-for-sale financial assets	(954)	-
(Impairment)/Reversal of impairment on secured loans	(297)	(488)
(Impairment)/Reversal of impairment on a loan and receivable	3,901	-
Foreign exchange difference	(22,035)	22,393
	127,703	182,843

9. NET BENEFITS AND CLAIMS INCURRED

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
(a) Gross benefits and claims paid		
Life insurance contract benefits and claims paid		
With DPF	58,268	42,118
Without DPF	685,805	493,981
Total life Insurance contract benefits and claims paid	744,073	536,099
Non-life insurance contract benefits and claims paid	30,949	14,617
	775,022	550,716
Life reinsurance contract benefits and claims paid	7,112	390
Total gross benefits and claims paid	782,134	551,106
(b) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(2)	(108)
Without DPF	(54,964)	(23,423)
Total reinsurers' share of life insurance contract benefits and claims paid	(54,966)	(23,531)
Reinsurers' share of non-life insurance contract benefits and claims paid	(6,048)	(2,215)
Total reinsurers' share of benefits and claims paid	(61,014)	(25,746)
(c) Gross change in contract liabilities		
Change in life insurance contract liabilities		
With DPF	83,501	86,213
Without DPF	1,557,715	1,108,908
Total change in life insurance contract liabilities	1,641,216	1,195,121
Change in non-life insurance contract liabilities	3,657	(2,228)
	1,644,873	1,192,893
Change in life reinsurance contract liabilities	237,191	44,093
Total gross change in contract liabilities	1,882,064	1,236,986
(d) Reinsurer's share of gross change in contract liabilities		
Reinsurer's share of change in life insurance contract liabilities		
With DPF	22	37
Without DPF	(267,248)	(83,484)
Total reinsurer's share of change in life insurance contract liabilities	(267,226)	(83,447)
Reinsurer's share of change in non-life insurance contract liabilities	(2,932)	(2,447)
Total reinsurer's share of gross change in contract liabilities	(270,158)	(85,894)
Total net benefits and claims	2,333,026	1,676,452

10. COMMISSION AND COMMISSION RELATED EXPENSES

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Commission expenses	560,682	246,463
Commission related expenses	148,860	119,451
	709,542	365,914

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Advertising and marketing expenses		32,205	36,601
Auditor's remuneration		1,522	1,219
Bank charges and other professional service fees		17,649	12,448
Computer and IT expenses		75,644	52,185
Depreciation		12,450	9,103
Employee benefit expenses			
Salaries and allowances		207,112	136,907
Share-based payment expenses	33	16,945	6,238
Pension contribution		7,248	6,070
Other staff costs		25,448	16,419
Legal and professional service fees		54,773	55,578
Office related expenses		13,980	8,410
Operating leases rental		17,285	11,318
Travel and entertainment		11,051	10,906
Investment properties related expenses		2,372	-
Loss on disposal of plant and equipment		16	99
Loss on disposal of intangible assets		701	-
Impairment of goodwill	13	22,758	13,361
Impairment of VOBA	13, 14	387	-
Other underwriting expenses		7,593	6,148
Other tax related expenses		10,967	4,923
Others		37,422	16,381
Foreign exchange differences, net		1,265	(6,140)
Total		576,793	398,174

12. Taxation

(a) Income tax

Taxes on profits have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

US$'000	Note	Year ended 31 December 2018	Year ended 31 December 2017
Current – Japan		(23,742)	-
Current – Thailand		-	(163)
Current – Elsewhere		174	(495)
Deferred	12(b)	61,046	(11,582)
		37,478	(12,240)

A reconciliation of the tax credit/expense applicable to profit/(loss) before tax at the statutory rate applicable to each country where the Group has operations to the tax position at the effective tax rate is shown below, along with a reconciliation of the statutory tax rate to the effective tax rate. The statutory tax rate and effective tax rate of Japan are 28% and 41%, respectively.

US$'000	Year ended 31 December 2018	%
Profit/(loss) before tax	(200,702)	
Tax at the statutory tax rate	65,777	(32.8)
Income not subject to tax	1,306	(0.6)
Expenses not deductible for tax	(7,676)	3.8
Tax losses not recognized	(21,929)	10.9
	37,478	(18.7)

US$'000	Year ended 31 December 2017	%
Profit/(loss) before tax	(149,909)	
Tax at the statutory tax rate	38,968	(26.0)
Income not subject to tax	1,228	(0.8)
Expenses not deductible for tax	(916)	0.6
Tax losses not recognized	(51,520)	34.4
	(12,240)	8.2

12. Taxation (continued)

(b) Deferred tax

The movement in deferred tax assets/(liabilities) during the year is as follows:

US$'000	Notes	Insurance contract liabilities	Intangible assets	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses and other temporary differences	Total
1 January 2018		153,003	(6,081)	(78,259)	(34,925)	(219,446)	82,537	(103,171)
Acquisition of subsidiaries		-	-	-	-	-	-	-
Deferred tax credited/(charged) to profit or loss	12(a)	(18,239)	(7,170)	(23,590)	3,003	94,916	12,126	61,046
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	-	16,655	(71)	16,584
Foreign exchange difference		2,271	(151)	(586)	(766)	(1,460)	726	34
31 December 2018		137,035	(13,402)	(102,435)	(32,688)	(109,335)	95,318	(25,507)

US$'000	Notes	Insurance contract liabilities	Intangible assets	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses and other temporary differences	Total
1 January 2017		58,281	-	(40,316)	-	(30,390)	5,494	(6,931)
Acquisition of subsidiaries		94,548	-	-	(38,217)	(175,235)	48,185	(70,719)
Deferred tax credited/(charged) to profit or loss	12(a)	(3,176)	(5,845)	(33,933)	2,340	(1,160)	30,192	(11,582)
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	-	(12,958)	(1,459)	(14,417)
Foreign exchange difference		3,350	(236)	(4,010)	952	297	125	478
31 December 2017		153,003	(6,081)	(78,259)	(34,925)	(219,446)	82,537	(103,171)

In 2018, the negative balances shown above of US$25,507,000 (2017: US$103,171,000), represent deferred tax assets of US$8,812,000 (2017: US$96,000) and deferred tax liabilities of US$34,319,000 (2017: US$103,267,000) relating to tax within the jurisdiction of the same tax authority.

Deferred tax assets are recognized to the extent that sufficient future taxable profits will be available for realization. The Group has tax losses arising in Singapore, Indonesia, Japan and Thailand of US$293,782,000 (2017: US$332,332,000) that are available within the applicable time limits for offsetting against taxable profits from its subsidiaries in which the losses arose. In 2018, additional deferred tax assets of US$5,269,000 (2017: US$13,946,000) have been recognized in respect of these losses as it is considered probable that taxable profits will be available against which these tax losses can be utilized in the foreseeable future. The tax losses of Singapore can be carried forward indefinitely. The tax losses of remaining subsidiaries can be carried forward for five years (Indonesia and Thailand) and ten years (nine years for losses incurred in Japan for fiscal years ending before 1 April 2017), respectively.

As of 31 December 2018, the Group had no uncertain tax positions that qualify for disclosure in the financial statements except for the tax benefits arising from the access fee paid to our bancassurance partner in Thailand. According to the Thailand Tax Rule, this access fee is fully deductible for tax purposes but the timing of deductibility is uncertain.

As of 31 December 2018, management believes that it is more likely than not that the tax authority will accept the deducible amount as the access fee amortized over the term of the bancassurance agreement in the income tax filing to reflect the expected future economic benefit flowing into the Group's subsidiary in Thailand. Accordingly, the Group determined its tax position including amortization of the access fee over the term of the bancassurance agreement of US$7,952,000 in the current year (2017: US$13,006,000).

In the unlikely case that the Thailand tax authority requires full deductibility for this access fee in 2017, based on management's best estimation, the Group would incur deferred tax liabilities of up to US$101,913,000 in 2018 (2017: US$114,000,000).

13. GOODWILL

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
At beginning of year			
Cost		70,364	66,257
Accumulated impairment		(13,361)	-
Foreign exchange difference		(3,050)	(5,914)
Net carrying amount		53,953	60,343
Movement during the year			
Acquisition of subsidiaries	6	513	4,107
Impairment provided during the year	11	(22,758)	(13,361)
Foreign exchange difference		(1,595)	2,864
Net carrying amount		30,113	53,953
At end of year			
Cost		70,877	70,364
Accumulated impairment		(36,119)	(13,361)
Foreign exchange difference		(4,645)	(3,050)
Net carrying amount		30,113	53,953

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units ("CGUs") for impairment testing:

- FWD Fuji Life Insurance Company, Limited
- FWD Life Insurance Public Company Limited
- PT FWD Life Indonesia

The recoverable amount of each CGU has been determined based on a value in use calculated as an actuarially determined appraisal value, based on (i) the Embedded Value ("EV") with respect to the in-force business together with (ii) the value of future new business. EV captures the market value of the assets in excess of those backing the policy reserves and other liabilities as well as the value of all in-force policies as at the reporting date attributable to the shareholders of the Company. The value of future new business is calculated by aggregating the present value of future expected profits on policies expected to be sold in the future (i.e., value of new business ("VNB")). Both EV and VNB are calculated in accordance with the Group's policies.

The Group adopts an approach that tests goodwill impairment at three levels.

- Level I – review any recent similar market transactions. If the purchase price implied by a similar market transaction is greater than the net asset value ("NAV") (inclusive of goodwill), the impairment test is passed.
- Level II –Impairment test is passed if the EV is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.
- Level III - The impairment test is passed if the EV plus the VNB for a reasonable number of future years is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.

If the recoverable amount is less than the NAV, the difference is recognized as an impairment loss in the Group's profit or loss.

13. GOODWILL (continued)

(a) FWD Fuji Life Insurance Company, Limited

No impairment loss has been recognized during the year as impairment test is passed at Level III for FWD Fuji Life Insurance Company, Limited.

The key assumptions used for the value in use impairment calculation of FWD Fuji Life Insurance Company, Limited are:

- Risk discount rate of 6% (2017: 6%) which is in line with industry average.
- Investment return assumptions of 1.51% (2017: 1.69%) of general account, progressively decreasing to 0.69% (2017: 0.78%) as the ultimate investment return assumption.
- VNB multiplier of 3.9 (2017: 7) calculated using projected VNB over the next 15 years (2017: 15 years) at a discount rate of 9% (2017: 9%).

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years has taken into account those used in the current five year business plan approved by the Group's Board and the market growth rates. The growth rate beyond five years is 3% per year. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

With regard to the assessment of value in use, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

(b) FWD Life Insurance Public Company Limited

No impairment loss has been recognized during the year as impairment test is passed at Level III for FWD Life Insurance Public Company Limited.

The key assumptions used for the value in use impairment calculation of FWD Life Insurance Public Company Limited are:

- Risk discount rate of 9.05% (2017: 9.05%) which is in line with industry average
- Investment return assumptions ranging from 4.22% to 4.30% (2017: ranging from 4.26% to 4.55%) of the general account, progressively increasing to 4.80% (2017: 4.80%) as the ultimate investment return assumption.
- VNB multiplier of 12 (2017: 13) calculated using projected VNB over the next 15 years (2017: 15 years) at a discount rate of 11.05% (2017: 11.05%).

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years has taken into account those used in the current five year business plan approved by the Group's Board and the market growth rates. The growth rate beyond five years is 3% per year. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

With regard to the assessment of value in use, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

(c) PT FWD Life Indonesia

The full amount of goodwill of US$22,245,000 and VOBA of US$387,000 have been impaired during the year as the impairment test is not passed at level III for PT FWD Life Indonesia.

The key assumptions used for the value in use impairment calculation of PT FWD Life Indonesia are:

- Risk discount rate of 14% (2017: 14%) which is in line with industry average.
- Investment return assumptions ranging from 3% to 11% (2017: 3% to 11%) for separate account and 7% (2017: 7%) for non-linked business.
- VNB multiplier of 7.6 (2017: 18) calculated using projected VNB over the next 15 years (2017: 15 years) at a discount rate of 16% (2017: 16%).

14. INTANGIBLE ASSETS

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Value of business acquired	14(a)	123,588	133,125
Other intangible assets	14(b)	724,677	693,268
		848,265	826,393

(a) Value of business acquired

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
At beginning of year		133,125	8,926
Acquisition of subsidiaries		-	136,490
Amortization during the year		(12,147)	(9,698)
Impairment during the year	11, 13	(387)	-
Foreign exchange difference		2,997	(2,593)
At end of year		123,588	133,125

(b) Other intangible assets

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
At beginning of year	693,268	23,266
Additions	57,607	678,794
Acquisition of subsidiaries	-	9,272
Amortization during the year	(26,185)	(27,432)
Disposals during the year	(1,522)	(1,288)
Effect of regrouping	(4,014)	-
Foreign exchange difference	5,523	10,656
At end of year	724,677	693,268

Other intangible assets in 2018 include US$22.2 million (2017: US$6.4 million) and US$643 million (2017: US$645 million) access fees paid to our bancassurance partners in the Philippines and Thailand, respectively, with the remaining balance mainly consisting of software.

In 2017, the Group concluded the terms of a new Bancassurance Agreement with a bank in Thailand (the "Bank"). The agreement gives the Group exclusive distribution rights for its life insurance products through the Bank's channels for an initial term of 15 years from 1 January 2017. The Group paid an access fee for exclusive distribution rights over the contract term. The fee paid was recorded as an Intangible Asset in the consolidated statement of financial position and is amortized over the initial contract term. The amortization charge is subsequently recorded as DAC and then amortized over the expected life of the underlying insurance contracts according to the DAC accounting policy as described in note 2.3.1.

15. DEFERRED ACQUISITION COST AND DEFERRED COMMISSION INCOME

US$'000	31 December 2018		
	Deferred acquisition costs	Deferred commission income	Net
At beginning of year	544,719	(53,214)	491,505
Expenses/(income) deferred	762,352	(238,037)	524,315
Amortization during the year	(196,521)	30,934	(165,587)
Foreign exchange difference	1,649	(1,864)	(215)
At end of year	1,112,199	(262,181)	850,018

US$'000	31 December 2017		
	Deferred acquisition costs	Deferred commission income	Net
At beginning of year	237,955	(45)	237,910
Expenses/(income) deferred	432,631	(59,910)	372,721
Amortization during the year	(145,833)	6,538	(139,295)
Foreign exchange difference	19,966	203	20,169
At end of year	544,719	(53,214)	491,505

16. PLANT AND EQUIPMENT

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
31 December 2018					
1 January 2018:					
Cost	22,641	1,336	12,796	15,959	52,732
Accumulated depreciation	(7,548)	(805)	(5,666)	(11,525)	(25,544)
Net carrying amount	15,093	531	7,130	4,434	27,188
1 January 2018, net of accumulated depreciation	15,093	531	7,130	4,434	27,188
Acquisition of subsidiaries (note 6)	11	-	20	19	50
Additions	9,881	195	7,108	8,281	25,465
Disposals	(13)	(6)	(22)	(15)	(56)
Depreciation provided during the year	(4,540)	(233)	(4,488)	(3,189)	(12,450)
Effect of regrouping	(3,011)	-	3,011	-	-
Foreign exchange difference	73	(2)	(155)	19	(65)
31 December 2018, net of accumulated depreciation	17,494	485	12,604	9,549	40,132
31 December 2018:					
Cost	29,199	1,461	22,494	23,566	76,720
Accumulated depreciation	(11,705)	(976)	(9,890)	(14,017)	(36,588)
Net carrying amount	17,494	485	12,604	9,549	40,132

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
31 December 2017					
1 January 2017:					
Cost	10,662	1,197	8,202	13,242	33,303
Accumulated depreciation	(4,017)	(650)	(3,933)	(8,344)	(16,944)
Net carrying amount	6,645	547	4,269	4,898	16,359
1 January 2017, net of accumulated depreciation	6,645	547	4,269	4,898	16,359
Acquisition of subsidiaries	5,415	-	1,644	135	7,194
Additions	7,269	187	4,117	2,023	13,596
Disposals	(996)	(24)	(300)	2	(1,318)
Depreciation provided during the year	(3,408)	(217)	(2,643)	(2,835)	(9,103)
Foreign exchange difference	168	38	43	211	460
31 December 2017, net of accumulated depreciation	15,093	531	7,130	4,434	27,188
31 December 2017:					
Cost	22,641	1,336	12,796	15,959	52,732
Accumulated depreciation	(7,548)	(805)	(5,666)	(11,525)	(25,544)
Net carrying amount	15,093	531	7,130	4,434	27,188

17. INVESTMENT PROPERTY

On 31 January 2018, the Group acquired GC Shinagawa TMK ("Shinagawa TMK") for a total consideration of US$1,000. The Group subsequently injected capital of US$190,610,000 into Shinagawa TMK, which was used to purchase a commercial investment property in Japan for a consideration of US$177,856,000.

On 1 May 2018, the Group acquired Ludgate TMK for a total consideration of US$47,541,000. During the year, Ludgate TMK purchased a residential property in Japan for a consideration of US$43,692,000.

On 16 August 2018, the Group acquired three parcels of land via three Trust Beneficiary Interests (the "TBIs 1") in Japan for a consideration of US$43,414,000.

On 30 November 2018, the Group acquired two parcels of land via two Trust Beneficiary Interests (the "TBIs 2") in Japan for a consideration of US$40,000,000.

All of the above investment properties are leased to third parties under operating leases.

Each year, the Group appoints an external appraiser to fair value the Group's properties. Selection criteria for the appraiser include market knowledge, reputation, independence and maintenance of professional standards. Refer to Note 3(n) for information on the valuation approach and key assumptions used.

US$'000

	31 December 2018	31 December 2017
Carrying amount at beginning of year	-	-
Additions	304,962	-
Fair value change recognized through profit or loss (note 8)	1,482	-
Foreign exchange difference	(656)	-
Carrying amount at end of year	305,788	-

Returns of the investment property are listed below:

US$'000

	31 December 2018	31 December 2017
Rental income derived from investment properties (note 8)	8,102	-
Direct operating expenses (including repairs and maintenance) generating rental income	(1,086)	-
Profit arising from investment properties carried at fair value	7,016	-

17. INVESTMENT PROPERTY (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment property:

31 December 2018

	Fair value measurement using			
US$'000	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investment property	-	-	305,788	305,788
	-	-	305,788	305,788

31 December 2017

	Fair value measurement using			
US$'000	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investment property	-	-	-	-
	-	-	-	-

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

18. FINANCIAL ASSETS

The following tables analyze the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Investment-linked Investments, and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by policyholders, and does not directly affect the profit or loss for the period. Furthermore, investment-linked policyholders are responsible for allocation of their policy values among investment funds offered by the Group. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

The Group has elected to apply the available for sale classification for the majority of debt securities and equities in the Policyholder and Shareholder Investments category. The investment risk from investments in this category directly impacts the Group's financial statements.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available-for-sale.

In compiling the tables, external ratings have been used where available. The following conventions have been adopted to conform the ratings of the various rating agencies.

Standard and Poor's	Moody's	Reported as
AAA	Aaa	AAA
AA+ to AA-	Aa1 to Aa3	AA
A+ to A-	A1 to A3	A
BBB+ to BBB-	Baa1 to Baa3	BBB
BB+ and below	Ba1 and below	Below investment grade

18. FINANCIAL ASSETS (continued)

18.1 Available-for-sale financial assets

Debt securities

US$'000
31 December 2018

	Rating	Life fund	Shareholder fund	Total
Government bonds - issued in local currency				
Singapore	AAA	19,589	3,001	22,590
Japan	A	3,290,456	-	3,290,456
Thailand	BBB	1,873,603	-	1,873,603
Philippines	BBB	-	14,468	14,468
Indonesia	BBB	-	9,624	9,624
Sub-total		5,183,648	27,093	5,210,741
Government bonds - issued in foreign currency				
United States	AA	499	-	499
Belgium	AA	56,702	-	56,702
Laos	Not rated	25,492	-	25,492
Sub-total		82,693	-	82,693
Government agency bonds(1)				
AAA		95,022	-	95,022
AA		55,562	-	55,562
A		145,991	-	145,991
BBB		192,909	-	192,909
Below investment grade		24,993	-	24,993
Sub-total		514,477	-	514,477
Corporate bonds				
AAA		159,712	-	159,712
AA		226,180	-	226,180
A		584,754	-	584,754
BBB		1,239,722	1,581	1,241,303
Below investment grade		334,332	-	334,332
Not rated		653	-	653
Sub-total		2,545,353	1,581	2,546,934
Structured securities				
AA		499,092	-	499,092
Sub-total		499,092	-	499,092

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

18. FINANCIAL ASSETS (continued)

18.1 Available-for-sale financial assets (continued)

Equity securities

US$'000
31 December 2018 (continued)

	Life fund	Shareholder fund	Total
Equity shares - Listed	259,035	6,694	265,729
Equity shares - Unlisted	34	3,600	3,634
Interest in investment funds	254,386	82,797	337,183
Sub-total	513,455	93,091	606,546
Others			
Others	-	1,784	1,784
Sub-total	-	1,784	1,784
Total Available-for-sale financial assets	9,338,718	123,549	9,462,267

18. FINANCIAL ASSETS (continued)

18.1 Available-for-sale financial assets

Debt securities

US$'000
31 December 2017

	Rating	Life fund	Shareholder fund	Total
Government bonds - issued in local currency				
Japan	A	3,806,402	-	3,806,402
Thailand	BBB	1,770,575	-	1,770,575
Philippines	BBB	1,336	24,636	25,972
Indonesia	BBB	-	9,334	9,334
Sub-total		5,578,313	33,970	5,612,283
Government bonds - issued in foreign currency				
Belgium	AA	124,276	-	124,276
Laos	Not rated	19,459	-	19,459
Sub-total		143,735	-	143,735
Government agency bonds(1)				
AAA		129,822	-	129,822
AA		55,862	-	55,862
A		276,338	-	276,338
BBB		172,172	-	172,172
Below investment grade		9,424	-	9,424
Sub-total		643,618	-	643,618
Corporate bonds				
AAA		153,304	-	153,304
AA		258,186	-	258,186
A		247,160	-	247,160
BBB		486,317	-	486,317
Below investment grade		270,810	-	270,810
Sub-total		1,415,777	-	1,415,777
Structured securities				
AAA		67,557	-	67,557
AA		180,688	-	180,688
Sub-total		248,245	-	248,245

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

18. FINANCIAL ASSETS (continued)

18.1 Available-for-sale financial assets (continued)

Equity securities

US$'000
31 December 2017 (continued)

	Life fund	Shareholder fund	Total
Equity shares - Listed	300,128	5,410	305,538
Equity shares - Unlisted	3,078	3,056	6,134
Interest in investment funds	218,612	-	218,612
Sub-total	521,818	8,466	530,284
Others			
Others	-	1,927	1,927
Sub-total	-	1,927	1,927
Total Available-for-sale financial assets	8,551,506	44,363	8,595,869

During the year, the gross change in fair value in respect of the Group's available-for-sale financial assets recognized in other comprehensive income amounted to a decrease of US$93,600,000 (2017: increase of US$86,748,000). Net realized losses of US$5,491,000 (2017: net realized gains of US$15,964,000) with impairment losses of US$954,000 (2017: nil) were reclassified from other comprehensive income to profit or loss.

As at 31 December 2018, a subsidiary of the Group has pledged State Enterprise bonds amounting to US$672,000 (2017: US$686,000) with the Registrar in accordance with the Life Insurance Act in Thailand. The subsidiary has also pledged government fixed interest securities amounting to US$767,291,000 (2017: US$642,912,000) as life assurance policy reserves with the Registrar in accordance with the Life Insurance Act in Thailand.

18.2 Financial assets at fair value through profit or loss

Equity securities

US$'000
31 December 2018

	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Interest in investment funds	204,255	222,675	426,930
		204,255	222,675
426,930			
Total financial assets at fair value through profit or loss	204,255	222,675	426,930

All financial assets at fair value through profit or loss at 31 December 2018 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

18. FINANCIAL ASSETS (continued)

18.2 Financial assets at fair value through profit or loss (continued)

<u>Equity securities</u>

US$'000

31 December 2017	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Interest in investment funds	35,888	227,615	263,503
263,503		35,888	227,615
Total financial assets at fair value through profit or loss	35,888	227,615	263,503

All financial assets at fair value through profit or loss at 31 December 2017 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

18.3 Loans and receivables

US$'000

	31 December 2018	31 December 2017
Policy loans	300,844	263,277
Secured loans	240	7,829
Accreting deposits and promissory notes	270,381	227,010
Other financial receivables	413	3,441
At end of year	571,878	501,557

Policy loans are stated at amortized cost, are interest-bearing at market interest rates and are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not exceed the cash value. The policy loans bear interest at rates ranging from 2.25% to 8% (2017: 2.25% to 8%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses. Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate to their fair values, except for accreting deposits. The details of fair value for accreting deposits are provided in note 21.

18. FINANCIAL ASSETS (continued)

18.4 Derivative financial investments

The Group had the following derivative financial instruments outstanding as at the end of the reporting year.

US$'000	Contract/notional Amount	Carrying Amount Assets	Carrying Amount Liabilities
31 December 2018	2,119,955	28,297	12,522
31 December 2017	982,000	2,691	11,126

Derivatives assets and derivative liabilities are recognized in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities, respectively. The carrying amounts of the derivative financial instruments are equal to their fair values and all derivatives are classified as current. The Group's derivative contracts are foreign exchange swaps, which provide an economic hedge for the Group's foreign exchange risk exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the table above reflect the aggregate of individual derivative positions on a gross basis to give an indication of the overall scale of derivative transactions. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

19. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group, other than insurance contract liabilities and associated reinsurance assets, as at the end of the reporting year are as follows:

31 December 2018

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	1,784	571,878	573,662
Debt securities	-	8,853,937	-	8,853,937
Equity securities	426,930	606,546	-	1,033,476
Derivative financial instruments	28,297	-	-	28,297
Deposits and other assets	-	-	224,446	224,446
Insurance receivables	-	-	332,650	332,650
Due from related parties	-	-	158,697	158,697
Cash and cash equivalents	-	-	728,532	728,532
	455,227	9,462,267	2,016,203	11,933,697

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Due to related parties	-	33,141	33,141
Borrowings	-	270,761	270,761
Derivative financial instruments	12,522	-	12,522
Insurance and other liabilities	-	704,358	704,358
	12,522	1,008,260	1,020,782

19. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2017

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	9,429	1,927	501,557	512,913
Debt securities	8,739	8,063,659	-	8,072,398
Equity securities	245,335	530,283	-	775,618
Derivative financial instruments	2,691	-	-	2,691
Deposits and other assets	-	-	192,044	192,044
Insurance receivables	-	-	297,355	297,355
Due from related parties	-	-	97,484	97,484
Cash and cash equivalents	-	-	650,996	650,996
	266,194	8,595,869	1,739,436	10,601,499

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Due to related parties	-	21,397	21,397
Borrowings	-	248,825	248,825
Derivative financial instruments	11,126	-	11,126
Insurance and other liabilities	-	511,991	511,991
	11,126	782,213	793,339

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for accreting deposits. The details of fair value for accreting deposits are provided in note 21.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of borrowings, loans and receivables, deposits and other assets, insurance receivables, amounts due from related parties, cash and cash equivalents, amounts due to related parties, insurance and other liabilities approximate to their carrying amounts largely because these instruments either have short term maturities or are interest-bearing at market interest rates.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity and fixed income investments are based on quoted market prices.

The fair values of unlisted debt securities are valued internally using a discounted cash flow model, which incorporates observable market data based on security specific characteristics. Inputs to the valuation model include credit ratings, credit spreads, treasury yields and issue-specific liquidity adjustments. The carrying amounts of unlisted debt securities are equal to their fair value.

21. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted private equity funds are based on the reported NAV in their audited financial statements. Management has obtained the audited financial statements from investees and considered various factors when assessing whether the reported NAV represents the fair value of the investments. These factors include the accounting policies adopted by the investees, the restrictions and barriers preventing the Group from disposing the investments, the Group's ownership percentage over the investee and other relevant factors. Fair value will be adjusted when such factors suggest the reported NAV does not represent its fair value. At 31 December 2018 and 31 December 2017, no reported NAV is adjusted. The directors believe that the fair values resulting from the reported NAV, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they are the most appropriate values at the end of the reporting period.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with sound credit ratings. Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

<u>Assets measured at fair value:</u>
31 December 2018

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	18.1	524,808	8,868,186	69,273	9,462,267
Financial assets at fair value through profit or loss	18.2	248,287	178,643	-	426,930
Derivatives	18.4	-	28,297	-	28,297
		773,095	9,075,126	69,273	9,917,494

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	18.1	454,514	8,133,294	8,061	8,595,869
Financial assets at fair value through profit or loss	18.2	174,120	89,383	-	263,503
Derivatives	18.4	-	2,691	-	2,691
		628,634	8,225,368	8,061	8,862,063

21. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:
31 December 2018

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivatives	19	-	12,522	-	12,522
		-	12,522	-	12,522

31 December 2017

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivatives	19	-	11,126	-	11,126
		-	11,126	-	11,126

The movement in the fair value measurement in the Group's Level 3 financial assets during the year is as follows:

US$'000	31 December 2018	31 December 2017
Financial assets - unlisted		
At beginning of year	8,061	2,014
Acquisition of subsidiary	-	2,474
Fair value changes recorded in the statement of profit or loss	504	(129)
Fair value changes recorded in OCI	(425)	650
Purchases/(Disposals)	63,439	3,080
Transfer out of level 3	(3,495)	-
Foreign exchange difference	1,189	(28)
At end of year	69,273	8,061

During the year, US$3,495,000 of financial assets were transferred out of level 3 to level 1.

Assets for which fair values are disclosed:
31 December 2018

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Accreting deposits	18.3	-	-	279,545	279,545

31 December 2017

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Accreting deposits	18.3	-	-	215,658	215,658

22. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

On 31 July 2014, the Group acquired a 22.64% interest in the share capital of Nova Founders Capital Limited ("Nova") in the form of preference shares. In addition, the Group was also granted call options to acquire a further 2.33% interest in Nova. The purchase consideration for the investment was US$30,000,000. Nova is a private entity that is engaged in the business of building financial services focused internet companies. The Group's interest in Nova, as an associate, is accounted for using the equity method in the consolidated financial statements. Nova is an investment entity and measures its portfolio companies at fair value. The Group retains the fair value measurement applied by Nova when using the equity method.

On 2 September 2015, the Group acquired a 51% interest in the ordinary share capital of EICL. The purchase consideration for the investment was US$5,000,000. EICL's business is the distribution of insurance products online and via mobile platforms or by direct marketing methods in the ASEAN jurisdictions and Taiwan. Considering all facts and circumstances, the Group concluded it has joint control over EICL. As at 31 December 2017, the Group's interest in EICL, as a joint venture, is accounted for using the equity method in the consolidated financial statements. As disclosed in the note 6 of the consolidated financial statements, the Group acquired the remaining 49% interest resulting in a 100% shareholding in EICL on 13 December 2018. In 2018, the Group shared EICL's losses of US$1,597,000 and the Group's carrying amount of the 51% interest investment in EICL was US$3,362,000. At the Acquisition Date, the fair value of the 51% interest of EICL was US$466,000 and the Group recognized a realized loss of US$2,895,000 on disposal of a joint venture.

On 10 October 2017, the Group acquired a 30% interest in the ordinary share capital of Pivot Fintech Pte. Ltd. ("Pivot"). The consideration for the investment was US$1,549,000. Pivot's business is to provide investment management services in ASEAN countries. The Group's interest in Pivot, as an associate, is accounted for using the equity method in the consolidated financial statements.

The following table shows the Group's carrying amounts of investments in associates and joint ventures:

US$'000

	Notes	31 December 2018	31 December 2017
Nova	22(a)	46,631	42,803
EICL		-	4,959
Pivot		1,359	1,537
		47,990	49,299

	31 December 2018	31 December 2017
Income from the Group's interest in Nova	3,828	3,938
The Group's share of post-acquisition losses in EICL	(1,597)	(2,311)
The Group's share of post-acquisition losses in Pivot	(148)	(13)
	2,083	1,614

22. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE (continued)

(a) Investment in associate:

In accordance with the terms of the shareholders' agreement, the Group was guaranteed certain returns on its investment in Nova ("the guaranteed amount"). In accounting for the Group's interest in Nova, the Group recognizes the higher of (1) the guaranteed amount and (2) the share of fair value of Nova's net assets plus goodwill. The Group was also granted call options to acquire a further 2.33% interest in Nova from other shareholders. The fair value of the call options is recognized as part of the Group's interest in Nova when the option price is in-the-money. The following table shows the Group's interest in Nova before considering the guaranteed amount:

US$'000	31 December 2018	31 December 2017
The Group's share of Nova's net assets	31,197	34,422
Goodwill on acquisition	3,274	3,274
Fair value gain from call options	879	1,210
At end of year	35,350	38,906

The following table illustrates the summarized financial information for Nova adjusted for any differences in accounting policies.

US$'000	31 December 2018	31 December 2017
Cash and cash equivalents	8,124	10,110
Fair value of portfolio companies	131,003	144,378
Other assets	2,002	2,164
Total liabilities	(3,335)	(4,613)
Nova's net assets	137,794	152,039
The Group's share of Nova's net assets	31,197	34,422

The Group does not have any capital commitments relating to its joint venture. Neither Nova nor Pivot had any contingent liabilities at 31 December 2018.

23. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US$'000	31 December 2018	31 December 2017
Accounts receivable	104,061	94,980
Accrued investment income	90,980	69,025
Deposits	15,714	14,514
Investment receivable	3,861	8,204
Prepayments	21,454	8,773
Tax receivable	14,086	3,656
Other assets	9,830	5,321
Total prepayments, deposits and other assets	259,986	204,473

24. INSURANCE RECEIVABLES

US$'000	31 December 2018	31 December 2017
Due from policyholders	76,852	53,075
Due from reinsurers	222,066	244,280
Due from retrocessionaire	33,732	-
Total current insurance receivables	332,650	297,355

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as the policy terminates and becomes void if and when the total indebtedness on a policy exceeds its cash surrender value.
The amounts due from reinsurers and a retrocessionaire arise from normal course of reinsurance business and are usually settled within a year. None of the above balances are either past due or impaired as there is no recent history of default.

The carrying amounts of current insurance receivables approximate to their fair values.

25. CASH AND CASH EQUIVALENTS

US$'000	31 December 2018	31 December 2017
Time deposits	78,672	87,867
Savings accounts	302,859	131,543
Current accounts	346,956	431,544
Cash on hand	45	42
	728,532	650,996
Less: Pledged time deposits	(13,928)	(64)
Cash and cash equivalents	714,604	650,932

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy counterparties. Credit risk exposure of the balance according to the counterparties' credit ratings is presented in note 35 to the financial statements.

26. INSURANCE CONTRACT LIABILITIES

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	11,437,476	(400,554)	11,036,922
Non-life insurance contracts	(b)	26,892	(15,269)	11,623
		11,464,368	(415,823)	11,048,545
Life reinsurance contracts	(c)	283,120	-	283,120
Total insurance contract liabilities		11,747,488	(415,823)	11,331,665

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	9,617,128	(130,673)	9,486,455
Non-life insurance contracts	(b)	14,996	(6,126)	8,870
		9,632,124	(136,799)	9,495,325
Life reinsurance contracts	(c)	43,872	-	43,872
Total insurance contract liabilities		9,675,996	(136,799)	9,539,197

(a) Life insurance contracts

The movement of insurance liabilities under insurance contracts is as follows:

US$'000	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2018	9,617,128	(130,673)	9,486,455
Acquisition of subsidiary	-	-	-
Valuation premiums and deposits received	2,237,353	(303,534)	1,933,819
Expected investment return	163,413	(2,009)	161,404
Liabilities released for deaths, maturities, surrenders and other benefit payments	(851,599)	43,089	(808,510)
Interest accrued and change in unit price	106,449	-	106,449
Foreign exchange movements	182,801	(6,824)	175,977
Other movement	(18,069)	(603)	(18,672)
At 31 December 2018	11,437,476	(400,554)	11,036,922

US$'000	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2017	2,441,200	(931)	2,440,269
Acquisition of subsidiary	5,835,976	(47,620)	5,788,356
Valuation premiums and deposits received	1,670,751	(73,559)	1,597,192
Expected investment return	126,362	(341)	126,021
Liabilities released for deaths, maturities, surrenders and other benefit payments	(634,360)	(9,192)	(643,552)
Interest accrued and change in unit price	68,320	-	68,320
Foreign exchange movements	96,755	969	97,724
Other movement	12,124	1	12,125
At 31 December 2017	9,617,128	(130,673)	9,486,455

26. INSURANCE CONTRACT LIABILITIES (continued)

Business description
The table below summarizes the key variables underlying life insurance contract cash flows.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations.	• Investment performance • Expenses • Mortality • Lapses • Morbidity • Dividend / bonus rates
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	• Mortality • Morbidity • Lapses • Expenses
Accident and health non-participating	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	• Mortality • Morbidity • Lapses • Expenses
Investment-linked	Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitized funds.	Benefits are based on the value of the unitized funds and death and living benefits.	• Investment performance • Lapses • Partial withdrawals • Premium holidays • Expenses • Mortality • Morbidity

26. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items impacting profit or loss for the period and shareholders' equity are market, insurance and lapse risks, as shown in the table below. Indirect exposure indicates that there is a second-order impact. For example, while the profit or loss for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders, there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

	Market and credit risk			
	Direct exposure			
Type of contract	Insurance contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance	• Investment performance	• Persistency • Mortality • Morbidity
Traditional non-participating life assurance	• Investment performance • Asset-liability mismatch risk	• Asset-liability mismatch risk • Credit Risk • Investment performance	• Not applicable	• Mortality • Morbidity • Persistency
Accident and health non-participating	• Loss ratio • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Investment-Linked	• Net neutral	• Net neutral	• Performance-related investment management fees	• Mortality • Persistency • Partial withdrawals • Premium holidays

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

26. INSURANCE CONTRACT LIABILITIES (continued)

(b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		6,829	(4,096)	2,733
Provision for claims incurred but not reported ("IBNR")		2,308	(1,537)	771
Total claims reported and IBNR	(i)	9,137	(5,633)	3,504
Provision for unearned premiums	(ii)	17,755	(9,636)	8,119
Total non-life insurance contract liabilities		26,892	(15,269)	11,623

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		4,468	(2,177)	2,291
Provision for claims incurred but not reported ("IBNR")		1,217	(638)	579
Total claims reported and IBNR	(i)	5,685	(2,815)	2,870
Provision for unearned premiums	(ii)	9,311	(3,311)	6,000
Total non-life insurance contract liabilities		14,996	(6,126)	8,870

(i) The provision for claims reported by policyholders and IBNR is as follows:

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2018		5,685	(2,815)	2,870
Acquisition of subsidiaries		-	-	-
Claims incurred in the year		34,743	(8,980)	25,763
Claims recovered/(paid) during the year	9	(30,949)	6,048	(24,901)
Foreign exchange movements		(342)	114	(228)
31 December 2018		9,137	(5,633)	3,504

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017		7,555	(293)	7,262
Acquisition of subsidiaries		-	-	-
Claims incurred in the year		12,395	(4,655)	7,740
Claims recovered/(paid) during the year	9	(14,617)	2,215	(12,402)
Foreign exchange movements		352	(82)	270
31 December 2017		5,685	(2,815)	2,870

26. INSURANCE CONTRACT LIABILITIES (continued)

(ii) The provision for unearned premiums is as follows:

US$'000	31 December 2018		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2018	9,311	(3,311)	6,000
Premiums written in the year	53,985	(24,499)	29,486
Premiums earned during the year	(44,556)	17,751	(26,805)
Foreign exchange difference	(985)	423	(562)
31 December 2018	17,755	(9,636)	8,119

US$'000	31 December 2017		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017	8,425	(463)	7,962
Premiums written in the year	28,891	(7,489)	21,402
Premiums earned during the year	(28,257)	4,786	(23,471)
Foreign exchange difference	252	(145)	107
31 December 2017	9,311	(3,311)	6,000

(c) Life reinsurance contracts

The movement of reinsurance liabilities under life reinsurance contracts is as follows:

US$'000	31 December 2018		
	Reinsurance contract liabilities	Retrocessionaires' share of liabilities	Net
1 January 2018	43,872	-	43,872
Valuation premiums and deposits received	255,513	-	255,513
Expected investment return	1,618	-	1,618
Liabilities released for deaths, maturities, surrenders and other benefit payments	(24,084)	-	(24,084)
Foreign exchange movements	5,818	-	5,818
Other movement	383	-	383
31 December 2018	283,120	-	283,120

US$'000	31 December 2017		
	Reinsurance contract liabilities	Retrocessionaires' share of liabilities	Net
1 January 2017	-	-	-
Valuation premiums and deposits received	49,032	-	49,032
Expected investment return	94	-	94
Liabilities released for deaths, maturities, surrenders and other benefit payments	(5,010)	-	(5,010)
Foreign exchange movements	(245)	-	(245)
Other movement	1	-	1
31 December 2017	43,872	-	43,872

26. INSURANCE CONTRACT LIABILITIES (continued)

(c) Life reinsurance contracts (continued)

Methodology and assumptions

Life reinsurance contract liabilities included mathematical reserves and claims reserves.

Mathematical reserves relate to guaranteed claims and benefits of ceding companies and are estimated using actuarial methods to determine the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapses and the expected future interest rates. Actuarial principles used allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins are no longer considered sufficient.

Claims reserves for losses and claims settlement expenses are recognized for payment obligations for reinsurance losses that have occurred but have not yet been settled. They are recognized for reserves for reinsurance losses reported before the reporting date and reserves for reinsurance losses that have already been incurred but not yet reported.

27. BORROWINGS

US$'000	31 December 2018	31 December 2017
Bank credit facilities	270,761	248,825

The bank facility is denominated in United States dollars and bears interest at 2.00% (2017: 2.25%) above LIBOR per annum.

Finance costs in 2018 included interest expense of US$10,357,000 (2017: US$10,862,000) on borrowings.

In July 2018, the Group redeemed a US$250,000,000 bank credit facility and entered into a new USD$275,000,000 bank credit facility. The Group has outstanding bank credit facilities of US$270,761,000 (2017: US$248,825,000) as at 31 December 2018. The net increase of US$21,936,000 in the carrying amount during 2018 consists of net increase of US$21,247,000 from the redemption and subscription of the bank credit facilities during the year and US$689,000 of non-cash increase due to amortization using the effective interest rate method.

28. INSURANCE AND OTHER LIABILITIES

US$'000	31 December 2018	31 December 2017
Accounts payable	15,816	14,629
Accrued commissions	70,220	71,985
Accrued expenses	126,952	90,452
Insurance payables	332,322	287,903
Investment creditors	102,174	30,117
Other payable	29,588	13,430
Others	3,111	2,863
Tax payable	24,175	612
Total insurance and other liabilities	704,358	511,991

The carrying amounts of the insurance and other liabilities approximate to their fair values.

29. SHARE CAPITAL AND RESERVES

(1) Share capital

US$'000

	31 December 2018	31 December 2017
Authorized,		
1,750,000,000 (2017: 2,000,000,000) ordinary shares of US$0.01 each	17,500	20,000
250,000,000 (2017: 250,000,000) preference shares of US$0.01 each	2,500	2,500
500,000,000 (2017: 250,000,000) convertible preference shares of US$0.01 each	5,000	2,500
	25,000	25,000
Issued and fully paid,		
18,956,250 (2017: 18,790,625) ordinary shares of US$0.01 each	190	188
8,202,225 (2017: 8,202,225) preference shares of US$0.01 each	82	82
2,529,334 (2017: 1,580,830) convertible preference shares of US$0.01 each	25	16
	297	286

During the year, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
(a) Ordinary shares issued and fully paid		
Issuance of 1 ordinary shares of US$1 each on 3 January 2013	-	-
Issuance of 9 ordinary shares of US$1 each on 14 February 2013	-	-
Issuance of 1,000,000 ordinary shares of US$1 each on 27 February 2013	1,000	99,000
Surrender of 990,009.9 ordinary shares of US$1 each on 10 December 2013	(990)	-
Sub-division of 10,000.1 ordinary shares of US$1 each to 1,000,010 ordinary shares of US$0.01 each on 10 December 2013	-	-
Issuance of 17,486,630 ordinary shares of US$0.01 each On 10 December 2013	175	(175)
Issuance of 100,000 ordinary shares of US$0.01 each on 5 June 2015	1	3,421
Issuance of 50,000 ordinary shares of US$0.01 each on 29 Jan 2016	1	1,710
Issuance of 34,565 ordinary shares of US$0.01 each on 29 July 2016	0	1,182
Issuance of 50,000 ordinary shares of US$0.01 each on 28 July 2017	0	1,711
Issuance of 69,420 ordinary shares of US$0.01 each on 6 December 2017	1	2,373
31 December 2017	188	109,222
Issuance of 165,625 ordinary shares of US$0.01 each on 21 March 2018	2	5,977
31 December 2018	190	115,199

29. SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

During the year, the movements in share capital and share premium were as follows (continued):

(b) Preference shares issued and fully paid		
3 January 2013	-	-
Issuance of 2,601,634 preference shares of US$0.01 each on 10 December 2013	26	249,974
Issuance of 5,600,591 preference shares of US$0.01 each on 19 August 2015	56	506,741
31 December 2018/ 31 December 2017	82	756,715
(c) Convertible preference shares issued and fully paid		
3 January 2013	-	-
Issuance of 1,264,672 convertible preference shares of US$0.01 each on 23 February 2017	13	402,127
Issuance of 316,158 convertible preference shares of US$0.01 each on 11 May 2017	3	92,799
31 December 2017	16	494,926
Issuance of 948,504 convertible preference shares of US$0.01 each on 7 March 2018	9	299,474
31 December 2018	25	794,400
31 December 2018	297	1,666,314

Preference Shares

The holders of preference shares in the Company are entitled to the same voting rights as each ordinary share in the Company.

The preference shares rank pari passu with all other shares in the Company on any payment of dividend or distribution or return of capital (other than on a liquidation event). On a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the preference shareholders pari passu with the holders of the convertible preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

Convertible Preference Shares

The holders of convertible preference shares in the Company are not entitled to attend or vote at general meetings of the Company.

The convertible preference shares rank pari passu with all other shares in the Company, with the exception that (i) on any payment of a dividend or distribution or return of capital (other than on a liquidation event), certain holders of the convertible preference shares shall have the benefit of an increased entitlement to such dividend or distribution and (ii) on a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the convertible preference shareholders pari passu with the holders of the preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

29. SHARE CAPITAL AND RESERVES (continued)

(2) Direct capital instruments

FWD Group Limited issued a direct capital instrument ("DCI") in two tranches on 15 June 2017 and 6 July 2017. The DCI is a zero coupon subordinated perpetual capital security issued for a total nominal amount of US$750,000,000. No distributions are paid on the DCI for the first five years (the zero coupon period). The DCI confers a right to receive distributions (the "Distributions") commencing from 15 June 2022 and then semi-annually in arrears on 15 June and 15 December of each subsequent year (the "Distribution Payment Dates"). The DCI is listed on The Stock Exchange of Hong Kong Limited.

The Company may, at its sole option, defer the Distribution on the DCI by giving notice to the DCI holders not more than ten nor less than five business days prior to a Distribution Payment Date. In the event of any Distribution deferral, the Company cannot declare or pay any dividend on its ordinary or preference share capital. The DCI has been treated as equity in its entirety in the consolidated statement of financial position.

The DCI has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 15 June 2022, or at any Distribution Payment Date following 15 June 2022.

(3) Reserves

(a) Share-based payment reserve
The share-based payment reserve comprises the outstanding reserve for the share-based compensation plan.

(b) Legal reserve
The legal reserve has been established to fulfill the requirement of Thailand's local statutory requirement.

(c) Available-for-sale financial assets revaluation reserve
The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

(d) Defined benefit obligation revaluation reserve
The defined benefit obligation revaluation reserve comprises the outstanding reserve for the defined benefit plan.

(e) Capital redemption reserve
The capital redemption reserve represents the non-distributable reserve for paid up share capital.

(f) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

30. SUBSIDIARIES

Particulars of the Group's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
FWD Group Financial Services Pte. Limited	Singapore	100	-	Investment holding
FWD Group Management Holdings Limited	Hong Kong	-	100	Group Office
FWD Life Insurance Public Company Limited	Thailand	-	87	Life Insurance
FWD Life Insurance Corporation Limited	Philippines	-	100	Life Insurance
PT FWD Life Indonesia	Indonesia	-	79	Life Insurance
FWD Singapore Pte. Ltd.	Singapore	-	98	Life and general Insurance
FWD Fuji Life Insurance Company, Limited	Japan		100	Life insurance
FWD Reinsurance Ltd.	Cayman Islands	-	100	Life reinsurance

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above.

Except for the acquisition of EICL on 13 December 2018 as described in note 6 above, and the additional equity acquired for FWD Singapore Pte. Ltd. (from 97% at 31 Dec 2017 to 98% at 31 Dec 2018) and PT FWD Life Indonesia (from 75% at 31 Dec 2017 to 79% at 31 Dec 2018), the percentage of total direct and indirect equity attributable to the Company in each of the above subsidiaries was the same at both 31 December 2018 and 31 December 2017.

Except for FWD Singapore Pte. Ltd., the subsidiaries are fully consolidated in the consolidated financial statements.

31. COMMITMENTS

Operating lease commitments

Operating lease commitments – Group as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

US$'000	31 December 2018	31 December 2017
Within one year	22,251	14,858
In the second to fifth years, inclusive	42,803	39,993
Over five years	4,334	3,163
	69,388	58,014

Operating lease commitments – Group as a lessor

In 2018, the Group leased its investment property portfolio consisting of certain commercial buildings and land. These leases have terms of between 1 and 20 years. The Group had total future minimum rental receivable under non-cancellable operating leases falling due as follows:

US$'000	31 December 2018	31 December 2017
Within one year	13,417	-
In the second to fifth years, inclusive	21,774	-
Over five years	42,673	-
	77,864	-

Investment and capital commitments

As of 31 December 2018, the Group has investment and capital commitments to invest in its private equity partnerships.

US$'000	31 December 2018	31 December 2017
Within one year	26,000	-
In the second to fifth years, inclusive	160,000	-
Over five years	-	-
	186,000	-

Capital commitment for a business acquisition subsequent to the reporting period

As of 31 December 2018, the Group has a capital commitment for a business acquisition subsequent to the reporting period. The Group has agreed to acquire an 80% interest in PT Commonwealth Life in Indonesia for a consideration of approximately US$300,000,000, and the acquisition is expected to be completed in Q2 2019 after receiving all required regulatory approvals.

32. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

Key management personnel of the Group are those that have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Short-term employee benefits	16,428	13,301
Post-employment benefits	234	235
Share-based payment	16,945	6,238
Other long-term benefits	2,541	2,331
Total compensation paid and payable to key management personnel	36,148	22,105

(b) Transactions with related parties:

The Group has transactions with certain related companies and these consolidated financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(I) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the year.

(i) The Group charged US$6,372,000 (2017: US$3,768,000) for administration, consultancy and management services provided to related parties and incurred US$4,529,000 (2017: US$4,406,000) for provision of IT, HR and other building-related services provided by related parties.

(ii) The Group charged US$2,403,000 (2017: US$1,391,000) for brand licensing fees to related parties.

(iii) The Group purchased certain group insurance contracts from related companies. The total premiums incurred on these contracts for the year was US$997,000 (2017: US$910,000).

(iv) Related companies charged the Group US$4,082,000 (2017: US$2,201,000) for the provision of telecommunication and investment advisory services.

(v) The Group has entered into reinsurance contracts with a related company. The total premium ceded, claims recovery received and commission income received for the year was US$22,794,000, US$24,728,000 and US$17,000 (2017: US$9,195,000, US$6,952,000 and US$19,000), respectively.

(II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US$158,697,000 (2017: US$97,484,000), of which US$111,500,000 (2017: US$76,100,000) is an inter-company loan receivable. The amounts due are unsecured, interest-free and payable on demand.

(III) As disclosed in the consolidated statements of financial position, the Group had outstanding advances payable to related companies of US$33,141,000 (2017: US$21,397,000) as at the end of the reporting year. The advances are unsecured, interest-free and payable on demand.

33. SHARE-BASED COMPENSATION

Share-based compensation plans

During the period, the Group initiated a share-option award plan, to reward eligible employees for their services and the achievement of meeting shareholder value targets. More details are set out in note 33 (b) of the financial statements.

(a) Share award plan

The Group operates a share award plan that provides FWD Group Limited shares to participants upon vesting. Eligible employees are granted share awards to reward service and the achievement of shareholder value targets. These awards are in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of up to four years and are at nil cost to the employee. Vesting of certain awards is conditional upon the employee being in active employment at the time of vesting. Vesting of certain other awards is subject to certain performance conditions in addition to the employee being in active employment at the time of vesting. Award holders do not have any right to dividends or voting rights attaching to the shares prior to vesting. All awards consist of the ordinary shares of FWD Group Limited.

The following table shows the movement in outstanding awards under the Group's share award plan:

Number of shares	2018	2017
At beginning of year	693,750	750,000
Granted during the year	33,835	93,750
Vested during the year	(167,625)	(119,420)
Forfeited during the year	-	(30,580)
At end of year	559,960	693,750

Valuation methodology
To calculate the fair value of the share awards with performance conditions, the Group utilizes an appraisal value methodology (Embedded Value plus a multiple of Value of New Business) and an assessment of performance conditions (IRR achievement), taking into account the terms and conditions upon which the awards were granted. The fair value calculated for share awards is inherently subjective due to the assumptions made.

The total fair value of share awards granted during the year ended 31 December 2018 is US$3,805,000 (2017: US$5,081,000).

Recognized compensation cost
The fair value of the employee services received in exchange for the grant of shares is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total expense recognized in the consolidated financial statements related to share-based compensation awards granted under the share award plan by the Group for the year ended 31 December 2018 is US$6.0 million (2017: US$6.2 million).

33. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

(b) Share-option award plan

The Group operates a share-option award plan that provides FWD Group Limited share-options to participants upon vesting. Eligible employees are granted share-option awards to reward service and the achievement of shareholder value targets. These awards are in the form of a contingent right to receive share-options or a conditional allocation of share-options. These share-option awards have vesting periods of up to three years and are at nil cost to the employee. Vesting of certain awards is conditional upon the employee being in active employment at the time of vesting. Each share-option grant has a 10-year exercise period and confers the right to the award holder to subscribe for an ordinary share of FWD Group Limited at a nominal exercise price of US$0.01.

The following table shows the movement in outstanding awards under the Group's share-option award plan:

Number of share-options	2018	2017
At beginning of year	-	-
Granted during the year	302,769	-
Vested during the year	(36,833)	-
Forfeited during the year	(1,254)	-
At end of year	264,682	-

Valuation methodology
To calculate the fair value of the share awards with performance conditions, the Group estimates the fair value of share-option using the Black-Scholes model and an assessment of performance conditions (IRR achievement), taking into account the terms and conditions upon which the awards were granted. The fair value calculated for share awards is inherently subjective due to the assumptions made.

The Group determines the fair value of share options by following input:

	2018	2017
• Dividend yield (%)	0	-
• Expected share price volatility (%)	30	-
• Risk-free interest rate (%)	1.82	-
• Expected life of share options (years)	2.5	-
• Exercise price (US$ per share)	0.01	-
• Weighted average share price (US$ per share)	112.46	-

The expected volatility reflects the assumption that historical volatility patterns continue, which may not be the actual outcome.

Share price per share is determined by appraisal value per share, using the same valuation methodology as is used in the share award plan

No share options were exercised during the year (2017: nil).

The total fair value of share-option awards granted during the year ended 31 December 2018 is US$34,046,000 (2017: nil).

Recognized compensation cost
The fair value of the employee services received in exchange for the grant of share-options is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total expense recognized in the consolidated financial statements related to share-based compensation awards granted under the share-option award plan by the Group for the year ended 31 December 2018 is US$10.9 million (2017: nil).

34. GROUP CAPITAL STRUCTURE

Capital Management

The Group's capital management objective is focused on maintaining a strong capital base to safeguard the Group's ability to continue as a going concern, to support the development of the business, maximize shareholders' value and to ensure that the Group complies with regulatory capital requirements. No changes were made in objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

Regulatory Solvency

The Group complied with all regulatory capital requirements during the year. The primary insurance regulators for the Group's subsidiaries are:

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Public Company Limited	Thailand Office of Insurance Commission ("THOIC")	Life Insurance Act of Thailand
FWD Life Insurance Corporation	Insurance Commission of the Philippines	The Insurance Code of the Philippines 2013
PT FWD Life Indonesia	Financial Service Authority ("OJK")	Minister of Finance Regulation No. 53/PMK.010/2012
FWD Singapore Pte. Ltd.	Monetary Authority of Singapore ("MAS")	Insurance Act (Cap. 142)
FWD Fuji Life Insurance Company, Limited	Financial Services Agency ("FSA")	Insurance Business Act
FWD Reinsurance Ltd.	Cayman Islands Monetary Authority ("CIMA")	Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations, 2012

34. GROUP CAPITAL STRUCTURE (continued)

The capital positions of the Group's principal operating companies at 31 December 2018 and 31 December 2017 are as follows:

31 December 2018 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Public Company Limited ("FWD Thailand")	323,695	134,190	241%
FWD Life Insurance Corporation ("FWD Philippines")	14,755	7,256	203%
PT FWD Life Indonesia ("FWD Indonesia")	8,549	2,871	298%
FWD Singapore Pte. Ltd. ("FWD Singapore")	25,144	6,755	372%
FWD Fuji Life Insurance Company, Limited ("FWD Japan")	878,389	84,195	1,043%
FWD Reinsurance Ltd. ("FWD Re")	70,831	3,030	2,338%

31 December 2017 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Public Company Limited ("FWD Thailand")	397,416	140,078	284%
FWD Life Insurance Corporation ("FWD Philippines")	22,207	1,712	1,297%
PT FWD Life Indonesia ("FWD Indonesia")	7,675	2,218	346%
FWD Singapore Pte. Ltd. ("FWD Singapore")	32,122	5,027	639%
FWD Fuji Life Insurance Company, Limited ("FWD Japan")	263,871	32,039	824%
FWD Reinsurance Ltd. ("FWD Re")	18,548	542	3,405%

34. GROUP CAPITAL STRUCTURE (continued)

Regulatory Solvency (continued)

The Life Insurance Act of Thailand (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Thailand. The Life Insurance Act of Thailand requires FWD Thailand to maintain a required minimum solvency margin of 100%.

The Insurance Code of the Philippines 2013 and other insurance regulations set minimum capital requirements that an insurer must meet in order to be authorized to carry on insurance business in or from the Philippines. The Insurance Code of the Philippines 2013 requires FWD Philippines to maintain minimum net admitted assets of at least Php1billion at all times. In addition, Insurance Memorandum Circular 6-2006 prescribes that the risk-based capital ("RBC") ratio (company net worth over its RBC) be at least 125% at every year-end.

The Government of Indonesia, through the Minister of Finance, sets and monitors capital requirements and other regulatory requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Indonesia. The Minister of Finance Regulation No. 53/PMK.010/2012 dated April 3, 2012 of Indonesia requires FWD Indonesia to maintain a minimum solvency margin of at least 120%.

The Singapore Insurance Act (Chapter 142) and other relevant Regulations set the minimum capital requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Singapore. Regulation issued under the Insurance Act (Chapter 142) requires FWD Singapore to maintain minimum paid-up capital of at least SGD10million. In addition, The Insurance Act (Chapter 142) prescribes that the risk-based capital ("RBC") ratio (company net worth over its RBC requirement) be at least 100% at every period-end.

The Enforcement Ordinance of the Insurance Business Act and Comprehensive Guidelines for Supervision of Insurance Companies sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Japan. The Comprehensive Guidelines for Supervision of Insurance Companies Section II-2-2-2 requires FWD Japan to maintain a required minimum solvency margin ratio of 200%.

The Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations, 2012 sets prescribed capital and minimum capital requirements that a Class B(iii) insurer must meet in order to carry on insurance business in or from the Cayman Islands. In addition, CIMA requires FWD Re to maintain a minimum solvency margin of 400% based on the Japanese Risk Based Capital requirements.

The Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the relevant local regulations and "required capital" as the minimum required margin of solvency calculated in accordance with the relevant local regulations. The solvency ratio is the ratio of total available capital to required capital.

35. RISK MANAGEMENT

Risk management framework

The Group's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organization within its stated Risk Appetite. The framework includes an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial and non-financial risks.

The Group issues contracts that transfer insurance risks, financial risks or both. The insurance risks and financial risks associated with the Group's operations and the Group's management of these risks are summarized below:

Insurance risks

(1) Life insurance contracts

Insurance risks comprise product design risk, underwriting and expense overrun risk, lapse risk and claims risk.

(a) Product design risk
Product design risk refers to potential defects in the development of a particular insurance product. The Group manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office.

The Group closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products. A portion of the Group's life insurance business is participating in nature. In the event of a volatile investment environment and/or unusual claims experience, the Group has the option of adjusting non-guaranteed bonuses and dividends payable to policyholders.

(b) Underwriting and expense overrun risk
Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product. The Group manages underwriting risk by adhering to underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. In certain circumstances where insufficient experience data is available, the Group makes use of reinsurers to obtain underwriting expertise. In pricing insurance products, the Group manages expense overrun risk by allowing for an appropriate level of expenses that reflects a realistic medium-to long-term view of the underlying cost structure. A disciplined expense budgeting and management process is followed to control expenses.

(c) Lapse risk
Lapse risk refers to the possibility that lapse experience diverges from that assumed when products were priced. It includes potential financial loss due to early termination of contracts where the acquisition costs incurred may not be recoverable from future revenue. The Group carries out regular reviews of persistency experience. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

(d) Claims risk
Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced. The Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.

Reinsurance solutions are used to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes. Although the Group has reinsurance arrangements in place, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

35. RISK MANAGEMENT (continued)

Insurance risks (continued)

(1) Life insurance contracts (continued)

The Group's accounting policies lock in assumptions for traditional insurance contracts at policy inception and incorporate provisions for adverse deviation. As a result, the levels of movement illustrated in the table below do not result in loss recognition, and so there is no corresponding effect on liabilities. The table below shows the impact on profit before tax from changes in mortality, morbidity, investment return, expenses and lapse/discontinuance rates:

Impact on profit before tax US$'000	2018	2017
10% increase in mortality	(8,727)	(6,630)
10% increase in morbidity	(8,734)	(5,945)
1% decrease in investment return	(2,684)	(2,095)
10% increase in expenses	(33,382)	(22,132)
10% increase in lapse/discontinuance rates	(17,339)	(8,957)

Financial risks

The Group is exposed to a range of financial risks, including credit risk, market risk, and liquidity risk. The Group applies a consistent risk management philosophy that is embedded in management processes and controls such that both existing and emerging risks are considered and addressed.

The following section summarizes the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Although the primary source of credit risk is the Group's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Group accepts is managed and monitored by the Asset and Liability Management Committee, through establishment of an exposure limit for each counterparty or group of counterparties, reporting of credit risk exposures, monitoring compliance with exposure limits, and a regular review of limits due to changes in the macro-economic environment.

The Group actively manages its investments to ensure that there is no significant concentration of credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder.

Management of the Group directs the Group's reinsurance placement policy and annually assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit ratings provided by rating agencies and other publicly available financial information. The Group also monitors the recoverability of its reinsurance assets on an ongoing basis.

35. RISK MANAGEMENT (continued)

Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Group at the end of the reporting year.

(a) Credit risk (continued)

31 December 2018 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	277,823	837,536	4,021,201	3,331,906	302,987	81,830	608,984	9,462,267
Fair value through profit or loss	-	-	-	-	-	-	426,930	426,930
Loans and receivables	-	13,144	11,959	111,857	133,808	-	301,110	571,878
Derivative financial instruments	-	1,516	24,616	982	844	-	339	28,297
Reinsurance assets	-	-	-	-	5,633	-	410,190	415,823
Prepayments, deposits and other assets	1,119	7,964	29,932	78,471	945	16	141,539	259,986
Insurance receivables	2,996	2,444	3,842	36	-	33	323,299	332,650
Due from related parties	-	-	-	-	-	-	158,697	158,697
Cash and cash equivalents	-	219,113	403,305	65,591	4,668	1,401	34,454	728,532
	281,938	1,081,717	4,494,855	3,588,843	448,885	83,280	2,405,542	12,385,060

35. RISK MANAGEMENT (continued)

Financial risks (continued)

(a) Credit risk (continued)

31 December 2017 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	350,683	619,012	4,329,900	2,464,370	265,902	14,332	551,670	8,595,869
Fair value through profit or loss	-	-	-	-	-	-	263,503	263,503
Loans and receivables	-	13,040	-	204,773	9,197	-	274,547	501,557
Derivative financial instruments	-	1,573	452	666	-	-	-	2,691
Reinsurance assets	-	-	1,803	-	-	-	134,996	136,799
Prepayments, deposits and other assets	1,957	4,195	90,132	4,012	994	-	103,183	204,473
Reinsurance receivables	-	-	-	-	-	-	-	-
Insurance receivables	2,943	3,886	501	23	-	16	289,986	297,355
Due from related parties	-	-	-	-	-	-	97,484	97,484
Cash and cash equivalents	1,231	202,787	372,903	47,713	2,376	-	23,986	650,996
	356,814	844,493	4,795,691	2,721,557	278,469	14,348	1,739,355	10,750,727

The credit ratings are provided by reputable international credit rating agencies as explained in note 18. Assets identified as “not rated” mainly represented listed and unlisted equities, unit trust investments, policyholder loans and receivables which, by nature, do not have credit ratings.

35. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Group is exposed to liquidity risk in respect of insurance contracts that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

To manage liquidity risk the Group has implemented a variety of measures, with an emphasis on flexible insurance product design, so that it can retain the greatest flexibility to adjust contract pricing or crediting rates. The Group also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of its insurance contracts. The Group performs regular monitoring of its liquidity position through cash flow projections.

The table below summarizes financial assets and liabilities of the Group into their relevant maturity groupings based on the remaining period at the end of the reporting year to their contractual maturities or expected repayment dates. Most of the Group's assets are used to support its insurance contract liabilities, which are not shown in the table below. Refer to Note 26 for additional information on the Group's insurance contract liabilities, as well as to the Insurance Risks section within Note 35.

31 December 2018

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	198,757	786,368	547,389	7,321,423	608,330	9,462,267
Fair value through profit or loss	44,032	-	-	-	382,898	426,930
Loans and receivables	151,922	-	14,833	255,935	149,188	571,878
Derivative financial instruments	25,225	-	1,342	1,730	-	28,297
Deposits and other assets	202,760	8,097	2,844	789	9,956	224,446
Insurance receivables	332,650	-	-	-	-	332,650
Due from related parties	-	-	-	-	158,697	158,697
Cash and cash equivalents	238,016	-	-	-	490,516	728,532
Total	1,193,362	794,465	566,408	7,579,877	1,799,585	11,933,697
Due to related parties	1,963	-	-	-	31,178	33,141
Financial liabilities						
Borrowings	-	270,761	-	-	-	270,761
Derivatives financial liabilities	4,345	1,836	2,304	4,037	-	12,522
Insurance and other liabilities	469,748	-	2,365	-	232,245	704,358
Total	476,056	272,597	4,669	4,037	263,423	1,020,782

35. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

31 December 2017

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	149,540	340,664	421,923	7,151,532	532,210	8,595,869
Fair value through profit or loss	39,305	1,127	1,065	5,875	216,131	263,503
Loans and receivables	133,863	-	-	227,010	140,684	501,557
Derivative financial instruments	1,136	-	876	679	-	2,691
Deposits and other assets	178,050	8,676	623	778	3,917	192,044
Insurance receivables	297,355	-	-	-	-	297,355
Due from related parties	-	-	-	-	97,484	97,484
Cash and cash equivalents	171,890	16,627	-	-	462,479	650,996
Total	971,139	367,094	424,487	7,385,874	1,452,905	10,601,499
Due to related parties	-	-	-	-	21,397	21,397
Financial liabilities						
Borrowings	248,825	-	-	-	-	248,825
Derivatives financial liabilities	5,168	4,770	1,188	-	-	11,126
Insurance and other liabilities	284,174	531	134	179	226,973	511,991
Total	538,167	5,301	1,322	179	248,370	793,339

(c) Market risk

(i) Currency risk

The Group's financial assets are predominantly denominated in the same currencies as its insurance liabilities, which serves to mitigate the foreign currency exchange risk. The level of currency risk the Group accepts is managed and monitored by the Asset and Liability Management Committee of the Group, through regular monitoring of currency positions of financial assets and insurance contracts.

The Group's net foreign currency exposures and the estimated impact of changes in foreign exchange rates are set out in the tables below after taking into account derivative contracts entered into to hedge foreign exchange rate risk. Currencies for which net exposure is not significant are excluded from the analysis below. At 31 December 2018, assets denominated in United States dollars, Thai Bhat and Japanese Yen accounted for 10% (2017: 6%), 33% (2017: 35%) and 47% (2017: 52%) of the Group's total assets, respectively, and liabilities denominated in Thai Bhat and Japanese Yen accounted for 29% (2017: 31%) and 64% (2017: 63%) of the Group's total liabilities, respectively. In compiling the table below, the impact of a 10 percent strengthening of original currency of the relevant operation is stated relative to the functional currency of the Group (US dollar). The impact of a 10 percent strengthening of the US dollar is also stated relative to the original currency of the relevant operation. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

35. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

US$'000

Currency	Change in variables	Impact on profit before tax 31 December 2018	31 December 2017
THB	+10% strengthening of original currency	4,174	3,055
THB	+10% strengthening of the US dollar	(3,795)	(2,604)

US$'000

Currency	Change in variables	Impact on total equity 31 December 2018	31 December 2017
THB	+10% strengthening of original currency	113,680	117,211
THB	+10% strengthening of the US dollar	(103,345)	(106,575)

US$'000

Currency	Change in variables	Impact on profit before tax 31 December 2018	31 December 2017
JPY	+10% strengthening of original currency	(1,274)	(3,686)
JPY	+10% strengthening of the US dollar	1,158	3,209

US$'000

Currency	Change in variables	Impact on total equity 31 December 2018	31 December 2017
JPY	+10% strengthening of original currency	61,986	32,161
JPY	+10% strengthening of the US dollar	(56,351)	(29,240)

(ii) Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any difference between the tenor of the Group's liabilities and assets, or any difference between the return on investments and the return required to meet the Group's commitments, predominantly its traditional insurance liabilities. This exposure is heightened in products with inherent interest rate options or guarantees.

The Group seeks to manage interest rate risk by ensuring appropriate product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of investment assets with the duration of insurance contracts. Given the long duration of policy liabilities and the uncertainty of future cash flows arising from these contracts, it is not possible to acquire assets that will perfectly match the policy liabilities. This results in interest rate risk, which is managed and monitored by the Asset and Liability Management Committee of the Group. The duration of interest bearing financial assets is regularly reviewed and monitored by referencing the estimated duration of insurance contract liabilities.

The analysis below illustrates the sensitivity of shareholders' equity to changes in interest rates. The analysis illustrates the impact of changing interest rates in isolation, and does not quantify potential impacts arising from changes in other assumptions. The Group's accounting policies lock in interest rate assumptions for traditional insurance contracts at policy inception and incorporate a provision for adverse deviation. As a result, the level of interest rate movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

35. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

In the analysis, it is assumed that the discount rates for the liabilities with regard to insurance contracts remain unchanged.

US$'000

Currency	Change in variables	Impact on shareholders' equity 31 December 2018	31 December 2017
THB	+25 basis points	(77,358)	(70,350)
THB	-25 basis points	80,501	73,274

US$'000

Currency	Change in variables	Impact on shareholders' equity 31 December 2018	31 December 2017
JPY	+25 basis points	(106,014)	(198,726)
JPY	-25 basis points	106,014	198,726

(iii) Equity market risk

The Group's equity market risk exposure relates to financial assets and liabilities whose values fluctuate as a result of changes in equity market prices, principally investment securities not held for the account of investment-linked policyholders.

The Group manages these risks by setting and monitoring investment limits in each country and sector.

The Group's principal equity price risk is related to movement in the fair value of its equity securities. The analysis below shows the impact on shareholders' equity to changes in equity prices, with all other variables held constant.

US$'000

Currency	Change in variables	Impact on shareholders' equity 31 December 2018	31 December 2017
Change in equity prices	-10%	(28,467)	(36,396)

36. EVENTS AFTER REPORTING YEAR

On 13 March 2019, FWD Group Limited issued a total of 442,636 convertible preference shares to PCGI Intermediate Holdings Limited, Swiss Re Investments Company Ltd and Eastwood Asset Holding Ltd for a total consideration of US$140,000,000.

The convertible preference shares rank pari passu with all other shares in the Company, with the exception that (i) on any payment of a dividend or distribution or return of capital (other than on a liquidation event), certain holders of the convertible preference shares shall have the benefit of an increased entitlement to such dividend or distribution and (ii) on a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the convertible preference shareholders pari passu with the holders of the preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

GLOSSARY

Aetna	Aetna Inc.
AIG	American International Group, Inc.
Annual Premium Equivalent (APE)	APE is a common measure of new business sales in the life insurance industry, calculated as annualised new recurring premiums plus 10 per cent. of single premiums, giving a broadly comparable measure to allow for differences between regular and single-premium business.
Asset Liability Management Committee (ALMCO)	The Group's ALMCO is a management committee established to support the RC and to provide oversight of the Group's asset and liability management.
Bancassurance	The distribution of insurance products through banks or other financial institutions.
CAGR	Compound annual growth rate.
CIMA	Cayman Islands Monetary Authority.
Claims risk	The possibility that the frequency or severity of claims arising from insurance products exceeds the levels assumed when the products were priced.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
Clearstream, Luxembourg	Clearstream Banking, S.A.
Commission's Proposal	A proposal published by the European Commission on 14 February 2013 for a Directive for a common financial transactions tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.
Credit risk	The risk that third parties fail to meet their obligations to the Group when they fall due.
CRS	A draft common reporting standard developed by the OECD.
Deferred acquisition costs (DAC)	DAC are expenses of an insurer incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed through the consolidated income statement on a systematic basis over the life of the policy. The carrying value of DAC is tested for recoverability at least annually, and any impairment is charged to the consolidated income statement.
Euroclear	Euroclear Bank SA/NV.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
FATCA	The U.S. Foreign Account Tax Compliance Act of 2010.
Financial Instruments and Exchange Act	The Financial Instruments and Exchange Act of Japan.
FSA	The Japanese Financial Services Agency.
FSMA	The Financial Services and Markets Act 2000 of the United Kingdom.
FTT	A common financial transactions tax proposed by the European Commission on 14 February 2013.

FWD Fuji Life	Formerly AIG Fuji Life Insurance Company, Limited acquired by the Group on 30 April 2017 and rebranded FWD Fuji Life Insurance Company, Limited effective 1 September 2017.
FWD Indonesia	PT FWD Life Indonesia
FWD Philippines	FWD Life Insurance Corporation Limited
FWD Singapore	FWD Singapore Pte. Ltd.
FWD Thailand	FWD Life Insurance Public Company Limited
Global Certificate	A global certificate in registered form, beneficial interests in which represent the Securities.
Group	The Issuer and its subsidiaries taken as a whole.
GWP	Gross written premiums.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising (i) International Financial Reporting Standards; (ii) International Accounting Standards; and (iii) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
Indonesia rupiah or IDR	The lawful currency of Indonesia.
ING	ING Groep N.V.
Insurance contract	A contract under which the insurer accepts significant Insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.
Insurance risk	The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences. Under IFRS, Insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.
Investment Committee (IC)	The Group's IC is a management committee established to support the RC and to provide oversight of the Group's investments.
Investment income	Interest income, dividends and rental income.
Investment return(s)	Investment income plus investment experience.
Issue Date	On or about 9 July 2019.
Issuer	FWD Group Limited, incorporated on 3 January 2013.
Japanese yen or JPY	The lawful currency of Japan.
Lapse risk	The risk that, having purchased an insurance policy from the Group, customers either surrender the policy or cease paying premiums on it and so the expected stream of future premiums does not materialise.
Liquidity risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Local available capital	The amount of assets in excess of liabilities calculated in accordance with regulatory requirements in each jurisdiction.
MAS	The Monetary Authority of Singapore.
Minimum local required capital	The minimum required margin of solvency calculated in accordance with the regulatory requirements in each jurisdiction.
MOF	The Ministry of Finance of Indonesia.
Non-participating life insurance	Contracts of insurance with no discretionary participation features.

OECD	The Organisation for Economic Co-operation and Development.
OIC	The Thai Office of Insurance Commission.
OJK	The Non-Bank Financial Institutions Supervisory Division of the Financial Services Authority.
Other comprehensive income	Items of income and expense that form part of total comprehensive income but, as required or permitted by IFRS, do not form part of profit or loss for the period, such as fair value gains and losses on available for sale financial assets.
Participating Member States	For purposes of the Commission's Proposal, Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.
Philippine peso or PHP	The lawful currency of the Philippines.
PineBridge	PineBridge Investments Limited, which FWD Thailand and FWD Fuji Life have appointed as investment manager for foreign currency denominated fixed income investments.
Policyholder dividend	Policyholder dividends are the means by which participating policyholders receive the non-guaranteed elements of their discretionary benefits, including their participation in the investment returns of a reference portfolio or pool of assets.
Regulation S	Regulation S under the Securities Act.
Richard Li	The Issuer's primary beneficial owner.
Rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premium.
Risk appetite	Risk appetite is the amount of risk that companies are willing to take in order to achieve their business targets.
Risk-based capital	Risk-Based Capital represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
Risk Committee (RC)	The Group's RC has primary responsibility for overseeing the investment of all the Group's assets (other than operating assets) within the risk guidelines set by the Board of Directors.
SBC	Security Bank Corporation
Securities Act	U.S. Securities Act of 1933.
SEHK	The Stock Exchange of Hong Kong Limited.
SFA	The Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time.
SFO	The Securities and Futures Ordinance (Cap. 571) of Hong Kong.
Shareholders' Agreement	The Investment and Shareholders' Agreement (Parallel Structure) dated 16 October 2013, as amended and restated on 31 July 2018, which governs the rights of Richard Li and Swiss Re as beneficial owners of the Issuer.
Singapore dollars or SGD	The lawful currency of Singapore.
Solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
Solvency ratio	Calculated as the ratio of local available capital to minimum local required capital.
Strategic Asset Allocation (SAA)	SAA is the setting of strategic asset allocation targets, based on long-term capital market assumptions, to meet long-term requirements of the insurance business and shareholders.

Swiss Re	Swiss Re Investments Company Limited.
Tactical Asset Allocation (TAA)	TAA is a mechanism used by investment managers to tactically adjust asset class allocations to capture the upside and mitigate the downside. It is typically a defined range above/below the SAA targets.
Thai baht or THB	The lawful currency of Thailand.
TMB	TMB Bank Public Company Limited.
Total investment portfolio	Investment portfolio composed of cash and cash equivalents, investment property and financial investments but excluding receivables (consisting of amounts due from insurance and investment contract holders, amounts due from agents, brokers and intermediaries, receivables from sales of investments and other receivables).
Underwriting	The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
United States or U.S.	United States of America.
U.S. dollars or U.S.$	The lawful currency of the United States.
Value of business acquired (VOBA)	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated by discounting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The carrying value of VOBA is reviewed at least annually for impairment and any impairment is charged to the consolidated income statement.
Value of New Business (VNB)	VNB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business.
VNB Margin	VNB Margin is equal to VNB expressed as a percentage of APE.
Withholding tax	When a payment is made to a party in another country, the laws of the payer's country may require withholding tax to be applied to the payment. International withholding tax may be required for payments of dividends or interest. A double tax treaty may reduce the amount of withholding tax required, depending upon the jurisdiction in which the recipient is tax resident.

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