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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 licensed broker or dealer and the managers, or any affiliate of the managers, is a licensed 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.

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**SUBJECT TO COMPLETION  
PRELIMINARY OFFERING CIRCULAR DATED 17 JANUARY 2017**

**STRICTLY  
CONFIDENTIAL**



## **FWD LIMITED**

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

**U.S.\$[●],000,000**

### **Subordinated Perpetual Capital Securities**

Issue Price: [●] per cent.

The U.S.\$[●] [●] per cent. Subordinated Perpetual Capital Securities (the “**Securities**”) will be issued by FWD Limited (the “**Issuer**”) and will be direct, unsecured and subordinated obligations of the Issuer, from time to time outstanding, ranking *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 Issuer. The Securities confer a right to receive distributions (each a “**Distribution**”) for the period from and including [●] 2017 (the “**Issue Date**”) at the initial rate of [●] per cent. per annum (the “**Distribution Rate**”) (see “*Terms and Conditions of the Securities—Distribution—Rate of Distribution*”). Subject to the provisions of the Securities relating to deferral of Distribution (see “*Terms and Conditions of the Securities—Distribution—Distribution Deferral*”), Distribution is payable semi-annually in arrear in equal instalments on [●] and [●] of each year (each a “**Distribution Payment Date**”, with the first Distribution Payment Date falling in [●] 2017).

The Issuer may, at its sole discretion, elect to defer (in whole or in part) Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by providing holders of the Securities (“**Holders**”) with not more than ten nor less than five Business Days’ (as defined in “*Terms and Conditions of the Securities*”) notice prior to the relevant Distribution Payment Date. Any Distribution so deferred shall constitute “**Arrears of Distribution**”. Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the Distribution Rate and the amount of such interest payable thereon shall be calculated by applying the prevailing Distribution Rate to the amount of the Arrears of Distribution as described in “*Terms and Conditions of the Securities—Distribution—Cumulative Deferral*”. The Issuer may further defer any Arrears of Distribution by complying with the foregoing notice requirement and is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred. See “*Terms and Conditions of the Securities—Distribution—Distribution Deferral*”.

The Securities are perpetual securities and have no fixed final redemption date. The Issuer may redeem the Securities in whole, but not in part on the Distribution Payment Date falling in [●] or on any Distribution Payment Date thereafter at their principal amount plus Distribution accrued to such date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amounts) (as defined in “*Terms and Conditions of the Securities*”) on the Issuer giving not less than 30 nor more than 60 days’ notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant date for redemption). The Securities may also be redeemed in whole, but not in part, at the option of the Issuer, subject to certain provisos, at the Special Event Redemption Price (as defined in “*Terms and Conditions of the Securities*”) upon the occurrence of: (i) an Equity Credit Classification Event; (ii) an Accounting Event; or (iii) a Change of Control (each as defined in “*Terms and Conditions of the Securities*”). The Securities may also be redeemed in whole, but not in part, at the option of the Issuer, subject to certain provisos, at their principal amount plus Distribution accrued to such date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amounts) (i) for a change in, or amendment to, the laws or regulations of the Cayman Islands or 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, which change or amendment becomes effective on or after [●] 2017 such that the Issuer would be required to pay additional amounts in respect of the Securities and such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (ii) where at least 80 per cent. in principal amount of the Securities originally issued (including any further Securities issued pursuant to the Terms and Conditions and consolidated and forming a single series with the Securities) has already been redeemed or purchased and cancelled. See “*Terms and Conditions of the Securities—Redemption and Purchase*”.

Application will be made to The Stock Exchange of Hong Kong Limited (the “**SEHK**”) for the listing of the Securities 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 Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Securities 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 Securities on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Securities 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.

The Securities are expected to be rated “[BB+]” by Fitch Ratings Limited (“**Fitch**”) and “[Ba1]” by Moody’s Investors Service Limited (“**Moody’s**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Investing in the Securities involves certain risks. See “Risk Factors” beginning on page 11 for a description of certain factors to be considered in connection with an investment in the Securities.**

The Securities 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 Securities 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 Securities and the distribution of this Offering Circular, see “*Subscription and Sale*”.

The Securities will be represented by beneficial interests in a global certificate (the “**Global 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 depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”). Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Securities will not be issued in exchange for interests in the Global Certificate.

#### **Joint Lead Managers and Joint Bookrunners**

**BNP PARIBAS**

**HSBC**

**Standard Chartered Bank**

This Offering Circular is dated [●] 2017.

## 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 Securities, that is material in the context of the issue and offering of the Securities (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 Securities); (ii) the statements contained in this Offering Circular relating to the Issuer, the Group, their affiliates and the Securities 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 Securities, the omission of which would, in the context of the issue and offering of the Securities, 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 Securities described in this Offering Circular. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons who are in possession of this Offering Circular are required by each of the Issuer, BNP Paribas, HSBC Bank plc and Standard Chartered Bank (the “**Joint Lead Managers**”), and the Agents (as defined in “*Terms and Conditions of the Securities*”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Securities or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Securities in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Securities 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 Securities 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 Securities in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Securities, 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 Securities to give any information or to make any representation concerning the Issuer, the Group and the Securities 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 Securities 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 Securities 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 Securities solely for the purpose of enabling a prospective investor to consider purchasing the Securities. 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 Securities offered by this Offering Circular is prohibited. Each offeree of the Securities, 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 Securities, 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 Securities. 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 Securities remain outstanding nor to advise any investor or potential investor of the Securities 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 Securities. Each potential purchaser of the Securities should determine for itself the relevance of the information contained in this Offering Circular, and its purchase of the Securities 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 Securities 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 Securities and/or other securities of the Issuer or their respective subsidiaries or associates at the same time as the offer and sale of the Securities 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 Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities). Furthermore, investors in the Securities 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. Investors are advised to exercise caution in relation to the offering of the Securities (the “**Offering**”) described herein. If investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

Hong Kong Exchanges and Clearing Limited and the SEHK 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.

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 SECURITIES, ANY OF THE JOINT LEAD MANAGERS ACTING IN ITS CAPACITY AS A STABILISING COORDINATOR (THE “STABILISING COORDINATOR”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING COORDINATOR) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND DIRECTIVES, OVER ALLOT THE SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING COORDINATOR (OR PERSONS ACTING ON BEHALF OF THE STABILISING COORDINATOR) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES IS MADE, AND SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

Listing of the Securities on the SEHK is not to be taken as an indication of the merits of the Issuer, the Group or the Securities. In making an investment decision, investors must rely on their own examination of the Issuer and the Group and the terms of the offering of the Securities, 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 Securities. 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 Securities regarding the legality of any investment in the Securities 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 Securities. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

### 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 “**Hong Kong**” are to the Hong Kong Special Administrative Region of the PRC, “**Macau**” are to the Macau Special Administrative Region of the PRC, “**PRC**” are to the People’s Republic of China (excluding, for the purposes of this Offering Circular only, Hong Kong, Macau and Taiwan), “**U.S.**” or “**United States**” are to the United States of America, “**Hong Kong dollars**”, “**HK dollars**” or “**HK\$**” are to the lawful currency of Hong Kong, “**Macau pataca**” or “**MOP**” are to the lawful currency of Macau, “**Renminbi**” or “**RMB**” are to the lawful currency of the PRC and “**U.S. dollars**” or “**U.S.\$**” are to the lawful currency of the United States.

This Offering Circular contains translations of certain HK dollar and Macau pataca amounts into U.S. dollars, and vice versa, at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations between HK dollars and U.S. dollars in this Offering Circular for HY2016, HY2015, FY2015 and FY2014 were made at the rates of HK\$7.759, HK\$7.752, HK\$7.750 and HK\$7.756, respectively to U.S.\$1.00. All transactions between Macau pataca and U.S. dollars in this Offering Circular for HY2016, HY2015, FY2015 and FY2014 were made at rates of MOP7.992, MOP7.985, MOP7.983 and MOP7.989, respectively, to U.S.\$1.00. No representation is made that the HK dollar, Macau pataca or U.S. dollar

amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars, Macau pataca or HK dollars at any particular rate or at all.

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 2014 (“**FY2014**”) and 31 December 2015 (“**FY2015**”) and for the period from 1 January 2015 to 30 June 2015 (“**HY2015**”), and the unaudited reviewed consolidated financial statements for the period from 1 January 2016 to 30 June 2016 (“**HY2016**”), have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

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## 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, general insurance, employee benefits and financial planning businesses in Hong Kong and Macau, including the ninth largest life insurance company in Hong Kong on an APE basis as of 30 June 2016 (according to OCI statistics) and the fifth largest life insurance company in Macau on an APE basis as of 30 June 2016 (according to AMCM statistics). The businesses within the Group have operated for 32 years in Hong Kong and for 17 years in Macau. 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 shareholders, Richard Li and Swiss Re.

As of 30 June 2016, the Group had total assets of U.S.\$11,116.7 million and total equity of U.S.\$2,122.3 million. For FY2015 and HY2016, the Group had losses after income tax expenses of U.S.\$0.7 million and U.S.\$16.3 million, respectively.

Life insurance is the Group's largest business line. The Group's life insurance subsidiaries, FWD Life Hong Kong and FWD Life Macau, produced profits after income tax expenses of U.S.\$1.8 million and U.S.\$0.7 million, respectively, for the period ended 30 June 2016. For the year ended 31 December 2015 and the period ended 30 June 2016, the VNB of FWD Life Hong Kong was U.S.\$97.6 million and U.S.\$55.3 million, respectively, representing VNB margins of 40.4 per cent. and 44.6 per cent., respectively. For the year ended 31 December 2015 and the period ended 30 June 2016, the VNB of FWD Life Macau was U.S.\$3.6 million and U.S.\$2.0 million, respectively, representing VNB margins of 46.8 per cent. and 55.6 per cent., respectively.

The Group also places strategic importance on its general insurance business to generate profit and to acquire new customers. The Group's general insurance subsidiary, FWD General Insurance, produced profits after income tax expenses of U.S.\$1.3 million and U.S.\$2.1 million for the year ended 31 December 2015 and the period ended 30 June 2016, respectively.

The Group's focus on value creation is evidenced by the strong growth in VNB in recent periods, as over the three years ended 30 June 2016, the compound annual growth rate ("CAGR") of the Life Businesses' VNB was 34.2 per cent. The Group strives to maintain a well-balanced distribution platform, including agency, bancassurance, brokerage and direct channels. For the period ended 30 June 2016, the agency, bancassurance, brokerage and direct channels represented 46.5 per cent., 23.1 per cent., 24.2 per cent. and 6.2 per cent., respectively, of the Life Businesses' APE.

On 30 June 2016, the Group acquired a 100 per cent. interest in Great Eastern (Life) Co. Ltd (Vietnam) in Vietnam ("**Great Eastern**") for a total consideration of U.S.\$35.9 million. Following the acquisition, Great Eastern has become a wholly-owned subsidiary of the Group and has been rebranded. Great Eastern is currently held by FWD Life Hong Kong and is accounted for as 'Held for Sale' in the unaudited reviewed consolidated financial statements for HY2016. Subject to regulatory approval, the Group intends to transfer Great Eastern in the near future to FWD Group Financial Services Pte. Ltd. as part of a corporate restructuring exercise. The transfer amount paid to FWD Life Hong Kong will be equivalent to the acquisition cost.

On 3 August 2016, the Group entered into an agreement to sell its MPF and ORSO business, including the pension trustee company, FWD Pension Trust, to Sun Life Hong Kong Limited ("**Sun Life**"). The Group and Sun Life will also enter into a 15-year strategic distribution agreement allowing FWD Life Hong Kong's agents to distribute Sun Life's MPF and ORSO products in the Hong Kong market. The transaction is expected to complete during 2017-2018 subject to regulatory approvals.

### 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;
- Strong relationships with customers;
- Established track-record with solid market positioning;



- Stable and prudent financial profile; 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;
- Expand multi-channel distribution;
- Create a differentiated brand through “customer-centricity”; 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 for FY2014, FY2015 and HY2015, and the unaudited reviewed consolidated financial statements for HY2016, which are included elsewhere in this Offering Circular. These results should be read in conjunction with the audited and unaudited reviewed consolidated financial statements and the notes thereto.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December 2014	For the year ended 31 December 2015	For the period from 1 January to 30 June 2015	For the period from 1 January to 30 June 2016
	(audited)	(U.S.\$ thousands) (audited)	(audited)	(unaudited)
<b>REVENUE</b>				
Gross premiums	1,168,069	1,421,921	671,356	746,084
Reinsurers' share of gross premiums	(104,577)	(248,298)	(122,886)	(115,519)
Change in unearned premiums	(4,099)	(740)	(3,226)	(2,735)
Net premiums	1,059,393	1,172,883	545,244	627,830
Fees and commission income	97,392 <sup>(1)</sup>	187,555	90,091	201,951
Investment return	195,173 <sup>(2)</sup>	169,528	134,607 <sup>(7)</sup>	95,238
Other operating revenue	23	43	21	51
<b>TOTAL REVENUE</b>	<b>1,351,981</b>	<b>1,530,009</b>	<b>769,963</b>	<b>925,070</b>
<b>BENEFITS, CLAIMS AND EXPENSES</b>				
Net benefits and claims	(1,147,796) <sup>(3)</sup>	(1,317,251)	(684,030)	(823,694)
Amortisation of intangible assets	(21,763) <sup>(4)</sup>	(27,654)	(5,903)	(13,043)
Net Deferred Acquisition Cost ("DAC") movement	143,059	165,571	66,556	80,795
Finance costs	(10,495)	(19,355)	(8,746)	(10,472)
Commission and commission related expenses	(156,985) <sup>(5)</sup>	(198,082)	(84,733)	(103,711)
Other operating and administrative expenses	(106,666) <sup>(6)</sup>	(125,145)	(52,893)	(69,872)
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>	<b>(1,300,646)</b>	<b>(1,521,916)</b>	<b>(769,749)</b>	<b>(939,997)</b>
<b>SHARE OF GAINS/(LOSSES) IN ASSOCIATE</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(213)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>51,335</b>	<b>8,093</b>	<b>214</b>	<b>(15,140)</b>
Income tax expense	(9,752)	(8,776)	(3,640)	(1,187)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>41,583</b>	<b>(683)</b>	<b>(3,426)</b>	<b>(16,327)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Exchange difference on translation of foreign operations	(9)	74	100	(215)
Re-measurement of defined benefit obligation	(91)	—	—	—
Change in fair value of available-for-sale financial assets	310,759	(54,796)	(33,083)	291,245
Reclassification adjustments for gains included in profit or loss of available-for-sale financial assets	(30,231)	(22,396)	(10,533)	(6,943)
Change in fair value of cash flow hedges	(1,543)	—	—	—
Transfer from equity to statement of profit or loss of cash flow hedges	41	154	76	76
Income Tax Impact	(24,063)	19,573	6,711	(39,054)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>254,863</b>	<b>(57,391)</b>	<b>(36,729)</b>	<b>245,109</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>296,446</b>	<b>(58,074)</b>	<b>(40,155)</b>	<b>228,782</b>

Notes:

- (1) Represents fee and commission income, together with trailer fee income included in other operating and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. Grouping has been changed to conform to the presentation of these items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the year.

- (2) Represents investment income, net realised gains/losses on financial assets, together with net fair value gains/losses on financial assets in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014, which have been aggregated to conform to the presentation of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the year.
- (3) Represents gross benefits and claims paid, reinsurers' share of gross benefits and claims paid, gross change in contract liabilities, together with reinsurers' share of gross change in contract liabilities in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014, which have been aggregated to conform to the presentation of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the year.
- (4) Represents value of business acquired amortisation, together with amortisation of other intangible assets included in other operating and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. Grouping has been changed to conform to the presentation of these items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the year.
- (5) Represents fee and commission expenses, together with commission related expenses included in other operating and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. Grouping has been changed to conform to the presentation of these items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the year.
- (6) Represents other operating and administrative expense, after regrouping certain expenses to fee and commission income, amortisation of intangible assets, and commission and commission related expense, together with line item of depreciation in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. Grouping has been changed to conform to the presentation of these items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the year.
- (7) Represents investment income, net realised gains/losses on financial assets, together with net fair value gains/losses on financial assets in the consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2015, which have been aggregated to conform to the presentation of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, with no impact on profit or loss for the period.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December 2014	As of 31 December 2015	As of 30 June 2015	As of 30 June 2016
	(audited)	(audited)	(audited)	(unaudited)
	(U.S.\$ thousands)			
<b>ASSETS</b>				
Goodwill	902,057	902,084	902,075	902,009
Intangible assets	626,817 <sup>(1)</sup>	599,244	585,466	586,162
Deferred acquisition cost	247,553	413,201	314,311	494,177
Plant and equipment	11,717	11,631	11,497	13,393
Investment property	—	—	—	10,036
Financial assets:				
Available-for-sale financial assets	4,692,900	5,391,990	4,914,314	6,248,295
Financial assets at fair value through profit or loss	1,187,951	1,200,810	1,286,164	1,197,972
Loans and receivables	134,886	139,266	137,695	142,149
Derivative financial instruments	3,512	6,661	7,783	2,049
Held for sale investment	—	—	—	35,935
Reinsurance assets	251,563	383,799	348,817	885,070
Investment in associate	—	—	—	9,817
Prepayments, deposits and other assets	84,878	77,247	108,539	120,500
Deferred tax assets	—	10,222	2,302	—
Insurance receivables	48,260	83,070	84,361	105,452
Due from related parties	5,112	3,839	5,545	4,101
Cash and cash equivalents	457,746 <sup>(2)</sup>	396,588	413,877	359,542
<b>TOTAL ASSETS</b>	<u>8,654,952</u>	<u>9,619,652</u>	<u>9,122,746</u>	<u>11,116,659</u>
<b>LIABILITIES</b>				
Insurance contract liabilities	5,439,829	6,460,659	5,932,790	7,602,835
Investment contract liabilities	707,164	703,585	736,375	694,202
Due to related parties	34,857	2,189	7,350	38,405
Deferred acquisition cost—Reinsurer's share	1,487	1,553	1,683	1,753
Financial liabilities:				
Borrowings	321,247	419,949	419,701	420,200
Derivative financial instruments	4,038	181	535	6,511
Deferred tax liabilities	2,211	1,267	1,248	30,822
Insurance and other liabilities	213,386 <sup>(3)</sup>	146,845	128,766 <sup>(4)</sup>	199,650
<b>TOTAL LIABILITIES</b>	<u>6,724,219</u>	<u>7,736,228</u>	<u>7,228,448</u>	<u>8,994,378</u>
<b>EQUITY</b>				
Issued capital	211	268	212	268
Share premium	1,830,176	1,837,844	1,837,845	1,837,844
Capital redemption reserve	18,302	18,302	18,302	18,302
Share-based payment reserve	12,619	15,659	8,670	25,734
Legal reserve	1,562	1,562	1,562	1,561
Cash flow hedge reserve	(1,502)	(1,348)	(1,426)	(1,272)
Available-for-sale financial assets revaluation reserve	26,239	(31,380)	(10,666)	213,868
Defined Benefit Obligation revaluation reserve	492	—	—	—
Foreign currency translation reserve	31	105	130	(109)
Retained earnings/(accumulated losses)	42,603	42,412	39,669	26,085
<b>TOTAL EQUITY</b>	<u>1,930,733</u>	<u>1,883,424</u>	<u>1,894,298</u>	<u>2,122,281</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>8,654,952</u>	<u>9,619,652</u>	<u>9,122,746</u>	<u>11,116,659</u>

*Notes:*

(1) Represents value of business acquired together with other intangible assets included in prepayments, deposits and other assets in the consolidated statement of financial position as of 31 December 2014, which have been aggregated to conform to the presentation of these items in the consolidated statement of financial position as of 31 December 2015.

- (2) Represents pledged deposits, together with cash and cash equivalents in the consolidated statement of financial position as of 31 December 2014, which have been aggregated to conform to the presentation of the consolidated statement of financial position as of 31 December 2015.
- (3) Represents insurance and other payables, accrued commissions, investment creditors, together with tax payable in the consolidated statement of financial position as of 31 December 2014, which have been aggregated to conform to the presentation of the consolidated statement of financial position as of 31 December 2015.
- (4) Represents insurance and other payables, accrued commissions, investment creditors, together with tax payable in the consolidated statement of financial position as of 30 June 2015, which have been aggregated to conform to the presentation of the consolidated statement of financial position as of 31 December 2015.

## KEY OPERATING DATA

	As of and for the year ended 31 December		As of and for the six month period ended 30 June	
	2014	2015	2015	2016
Life Businesses' APE <sup>(1)</sup> . . . . .	200.8	249.3	87.5	127.5
Life Businesses' VNB margin <sup>(2)</sup> . . . . .	39.7%	40.6%	44.7%	44.9%
Group GWP <sup>(3)</sup> . . . . .	1,171.7	1,425.8	671.2	747.4
FWD General Insurance combined ratio <sup>(4)</sup> . . . . .	95.3%	102.6%	113.3%	93.4%
Solvency ratio <sup>(5)</sup> :				
FWD Life Hong Kong (per cent.) . . . . .	226%	216%	240%	239%
FWD General Insurance (per cent.) . . . . .	581%	664%	610%	699%

*Notes:*

- (1) Represents the aggregate APE of FWD Life Hong Kong and FWD Life Macau.
- (2) Represents the aggregate VNB margin of FWD Life Hong Kong and FWD Life Macau.
- (3) Represents the aggregate GWP of the Life Businesses and FWD General Insurance calculated based on guidelines promulgated by the OCI or the AMCM, as appropriate.
- (4) Calculated as the sum of incurred claims plus expenses divided by earned premiums, where expenses include commissions, underwriting expenses and administrative expenses, with all items determined using the regulatory reporting basis.
- (5) Calculated as the ratio of local available capital to minimum local required capital.

## SUMMARY OF THE OFFERING

The following is a summary of the terms and conditions of the Securities (the “**Terms and Conditions**”). For a more complete description of the Securities, see “**Terms and Conditions of the Securities**”. Terms used in this summary and not otherwise defined shall have the meanings given to them in “**Terms and Conditions of the Securities**”.

**Issuer** ..... FWD Limited

**Issue** ..... U.S.\$[●] [●] per cent. subordinated perpetual capital securities

### **Status and Subordination of the**

**Securities** ..... The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* without any preference or priority of payment among themselves and with any Parity Obligations (as defined in Condition 4(e)(vii)) of the Issuer.

In the event of the Winding-Up (as defined in Condition 8(e)) of the Issuer, the rights and claims of the Holders in respect of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Obligations (as defined in Condition 4(e)(vii)) 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 Security, be deemed to have waived all rights of set-off, deduction, withholding or retention. Subject to applicable law, 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 Securities.

**Issue Price** ..... [●] per cent.

**Form and Denomination** ..... The Securities will be issued in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof.

**Distributions** ..... Subject to Condition 4(e), the Securities confer a right to receive distribution (each a “**Distribution**”) from the Issue Date at the Distribution Rate payable semi-annually in arrear in equal instalments on [●] and [●] of each year, with the first Distribution Payment Date falling in [●] 2017.

**Distribution Rate** ..... Subject to the Terms and Conditions, the initial Distribution Rate shall be [●] per cent. per annum.

**Optional Deferral of Distributions** ... The Issuer may, at its sole discretion, elect to defer a Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Holders not more than ten nor less than five Business Days prior to a scheduled Distribution Payment Date (a “**Distribution Deferral Election**”). Any Distribution so deferred shall bear interest as if it constituted the principal of the Securities at the Distribution Rate. The Issuer may further defer any Arrears of Distribution by complying with the foregoing notice requirement. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can be deferred.

**Arrears of Distribution** ..... Any Distribution not paid on a Distribution Payment Date shall constitute an “**Arrears of Distribution**”. Arrears of Distribution (a) may be satisfied by the Issuer (in whole or in part) at any time by giving notice of such election to Holders and the Fiscal Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and

shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment dates specified in such notice) and (b) must be satisfied in certain other circumstances in accordance with Condition 4(e)(v)(B).

**Restrictions in the case of a**

**Deferral** ..... If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Condition 4(e), the Issuer shall not:

- (1) declare, pay or make any discretionary dividends or distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is declared, paid or made on its Junior Obligations or Parity Obligations (except, in relation to the Parity Obligations of the Issuer, where such dividend, distribution or other payment is made on a *pro-rata* basis with payment on the Securities), **provided that** such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, or consultants; or
- (2) redeem, reduce, cancel, buy-back or acquire at its discretion for any consideration any Junior Obligations or Parity Obligations (except, in relation to the Parity Obligations of the Issuer, where such redemption reduction, cancellation or buy-back is made on a *pro-rata* basis with a *pro-rata* purchase by the Issuer of Securities), **provided that** such restriction shall not apply to an exchange of any of the Parity Obligations in whole for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, or consultants,

unless and until (i) the Issuer has satisfied, in full all outstanding Arrears of Distribution; or (ii) is permitted to do so by an Extraordinary Resolution (as defined in the Agency Agreement) of the Holders.

**Maturity Date** ..... There is no maturity date.

**Redemption at the Option of the**

**Issuer** ..... The Issuer may at its option redeem the Securities in whole, but not in part, on the Distribution Payment Date falling in [●] or on any Distribution Payment Date thereafter on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant Call Settlement Date at their principal amount plus Distribution accrued to such date (including any Arrears of Distribution and any Additional Distribution Amount)).

**Tax Redemption** ..... The Issuer may at its option redeem the Securities 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 their principal amount together with Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, as a result of a change in, or amendment to, the laws or regulations of the Cayman Islands or 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,

which change or amendment becomes effective on or after [●] 2017, or the Issuer would be required to pay additional amounts in respect of the Securities and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

**Redemption upon a Ratings Event** . . . The Securities 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 an Equity Credit Classification Event at the Special Event Redemption Price.

**Redemption for Accounting**

**Reasons** . . . . . The Securities 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 an Accounting Event at the Special Event Redemption Price.

**Redemption upon a Change of**

**Control** . . . . . The Securities 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 in Control at the Special Event Redemption Price.

**Redemption for minimum outstanding amount** . . . . .

The Securities 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 will be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amounts) if prior to the date of such notice at least 80 per cent. in principal amount of the Securities originally issued (including any further Securities issued pursuant to the Terms and Conditions and consolidated and forming a single series with the Securities) has already been redeemed or purchased and cancelled.

**Governing Law** . . . . . The Securities will be governed by, and construed in accordance with, English law, save for the provisions relating to subordination of the Securities and Clause 3 of the Deed of Covenant which will be governed by, and construed in accordance with, Cayman Islands law.

**Clearing Systems** . . . . . The Securities will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global 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 Securities will not be issued in exchange for beneficial interests in the Global Certificate.

**Clearance and Settlement** . . . . . The Securities have been accepted for clearance by Euroclear and Clearstream under the following codes:  
  
ISIN: XS1520804250  
  
Common Code: 152080425

**Fiscal Agent, Paying Agent and Transfer Agent** . . . . . The Hongkong and Shanghai Banking Corporation Limited

**Registrar** . . . . . The Hongkong and Shanghai Banking Corporation Limited



**Listing** ..... Application will be made to the SEHK for the listing of, and permission to deal in, the Securities by way of debt issues to Professional Investors only.

**Ratings** ..... The Securities are expected to be rated [“BB+”] by Fitch and [“Ba1”] by Moody’s. A security rating is not a recommendation to buy, sell or hold the Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Such ratings should be evaluated independently of any other rating of the other securities of the Issuer.

**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**

#### **Market fluctuations and general economic conditions impact the Group's business.**

The Group's business is inherently subject to 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, in particular, by Brexit and ongoing concerns over European sovereign debt, economic growth and investor confidence in the Eurozone and the United States, the possible consequences of quantitative easing programs by central banks, regional and geopolitical instability in the Middle East, Eastern Europe 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. 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.

#### **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. Hong Kong and the United States, the two jurisdictions to which the Group has the most exposure through its fixed income investments and, in the case of Hong Kong, its insurance products, 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 interest rates.

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.

For regulatory reporting and solvency purposes, FWD Life Insurance Company (Bermuda) Limited (“**FWD Life Hong Kong**”) measures its assets and reserves based on guidelines promulgated by the Hong Kong Office of the Commissioner of Insurance (the “**OCI**”). Under present OCI regulations, the carrying values of a life insurance company’s assets are required to be marked-to-market each year using the current market interest rate. The discount rate used to calculate a life insurance company’s reserves, however, is a blend of the existing portfolio yield, the average market interest rate for the last three years and the current market interest rate. As a result, the regulatory solvency ratio of FWD Life Hong Kong is susceptible to changes in interest rates, which may in turn affect the ability of FWD Life Hong Kong to pay dividends to the Issuer. See “—*Risks Relating to the Securities—As a holding company, the Issuer is dependent upon its subsidiaries to cover operating expenses and to fulfil its obligations under the Securities*”. In addition, the Issuer prepares its consolidated financial statements in accordance with IFRS, and the consolidated financial statements do not reflect the regulatory solvency ratios of any of the businesses within the Group.

**The Group’s business operations are concentrated in Hong Kong.**

The Group’s operations are based in Hong Kong and Macau, with a large majority of the Group’s revenue and profit being derived from operations conducted in Hong Kong. While the level of new business has grown in the Hong Kong insurance market in recent years and the Group believes that the insurance penetration rate could increase, there is no assurance that such growth will continue at the same rate or at all or that the level of new business will not decrease. Furthermore, the impact on the Hong Kong insurance industry of certain trends and events, such as the pace of economic growth, is unclear. Consequently, the growth and development of the Hong Kong insurance market is subject to a number of uncertainties that are beyond the Group’s control. Any reduction in growth or any decrease in new business in Hong Kong could have a material adverse effect on the Group’s business, financial condition and results of operations.

**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 structured securities and private equity 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, 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.**

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. Such third-party debtors may not pay or perform under their obligations. Defaults on the obligations in which the Group has invested 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, whether due to a credit rating downgrade of the Issuer or of FWD Life Hong Kong, a significant reduction in the Group's solvency ratio 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 Issuer's senior debt is currently assigned a rating of "BBB" with a stable outlook from Fitch and "Baa2" with a negative outlook from Moody's. These ratings are subject to review and may be downgraded or revoked at the sole discretion of the agencies. In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in general economic conditions or the Group's financial condition and results of operations. There is no assurance that the Group will not experience any reductions in its reputation or financial strength, actual or perceived, in the future.

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

The Group's businesses derive benefits from operating in the relatively favourable tax jurisdictions of Hong Kong and Macau. For business carried out in and from Hong Kong, the Group is subject to Hong Kong profits tax at the standard rate of 16.5 per cent. on the assessable amount of income from such business. Income generated and capital gains from investments offshore Hong Kong are currently exempted from Hong Kong profits tax.

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation, for example, relating to the classification of income and capital gains as offshore Hong Kong for purposes of the exemptions from Hong Kong profits tax, could materially and adversely affect the Group's business, financial condition and results of operations.

**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 Hong Kong and Macau 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 profitability.**

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. 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 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 several banks in Hong Kong and Macau for sales of the Group's bancassurance products through their respective networks. There is no

assurance that these arrangements will be renewed on acceptable terms, or at all, upon their expiration. Regulatory changes with respect to the bancassurance business and distribution of bancassurance products may 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, 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 may need additional capital in the future.**

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 Hong Kong, Macau 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.

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

A substantial liability arising from a lawsuit judgment 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*".

**New business activities 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 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 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 will be as successful as intended, or at all. Furthermore, expansion into any new areas of business and/or any new distribution channel 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.

**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. Additionally, the Group utilises certain reinsurance arrangements, particularly with China Life Reinsurance Co Ltd., to help manage the exchange rate risk and liquidity risk associated with its RMB product offerings. 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 FWD Life Hong Kong and FWD Life Insurance Company (Macau) Limited (“**FWD Life Macau**” and together with FWD Life Hong Kong, the “**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. As these assumptions are forward-looking, actual future experience may differ materially from those assumed in the calculations.

**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 beneficial owners, Richard Li and Swiss Re Investments Company Limited (“**Swiss Re**”), owned approximately 84.5 per cent. and 14.9 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 on 10 December 2013 (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**

**The Group faces significant competition.**

The Group faces significant competition in Hong Kong and Macau. The Hong Kong life insurance market, in particular, is 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 Hong Kong for linked and non-linked insurance business as at 30 June 2016 was over 79 per cent. by annual premium equivalent (“**APE**”), according to the OCI’s provisional statistics for long term business. Further concentration of the markets in which the Group operates may adversely affect the Group’s business, financial condition and results of operations.



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 generally required by applicable law to maintain their solvency ratios at a level in excess of statutory minimum standards. The Group's solvency ratio is affected primarily by the volumes and types of new insurance policies the Group sells, by the composition of the Group's in-force insurance policies and investments and by regulations on the determination of statutory reserves. The Group's solvency ratio 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, 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.

The Group is subject to regulatory oversight in Hong Kong by the OCI under the Insurance Companies Ordinance (Laws of Hong Kong, Chapter 41) (the "HKICO"), which will be replaced by the Independent Insurance Authority (the "IIA") following an amendment to the HKICO in July 2015 and the completion of a number of transitional arrangements. In Macau the Group is subject to oversight by the Monetary Authority of Macau (the "AMCM") under the Macau Insurance Companies Ordinance (the "MICO"). The regulations to which the Group is subject relate to the authorisation to transact certain lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control and a variety of other financial and non-financial components of an insurance company's business. In Hong Kong and Macau, laws and regulations applicable to insurance companies contain provisions whereby policyholders are given priority over the claims of other creditors. This protection could adversely impact the claims of creditors of insurance companies other than policyholders.

In addition, the laws, rules and regulations under which the Group operates, including any regulatory orders specific to the Group, may change from time to time, which in some circumstances may be applied retrospectively and may adversely affect the Group's product range, distribution channels, profitability, capital requirements and, consequently, reported results and financing requirements. For example, following complaints about investment-linked assurance schemes ("ILAS") and discrepancies in the sales process discovered by the OCI's mystery shopping exercise in 2012, the Hong Kong Monetary Authority, the Securities and Futures Commission ("SFC"), the Commissioner of Insurance, in her role as the Insurance Authority pursuant to the HKICO (the "Insurance Authority") and the Hong Kong Federation of Insurers ("HKFI") began implementing a number of changes to the way ILAS may be structured and marketed in July 2013. These changes include expanded disclosure requirements, new requirements for approvals by the SFC and increased minimum benefits. There is no assurance that future legislative or regulatory changes, including deregulation or other reforms, will not have a material adverse effect on the Group's business, financial condition and results of operations.

In Hong Kong, the Financial Institutions (Resolutions) Ordinance (the "FI(R)O") came into effect on 29 June 2016 following a two-stage consultation and response process. The FI(R)O designates the Insurance Authority as the resolution authority in relation to insurance sector entities in Hong Kong. It empowers the Insurance Authority in this capacity to, amongst other things, designate which entities are to be covered by the FI(R)O, prescribe loss-absorbing capacity requirements, make rules for stabilisation, resolution and continued operation through resolution of an in-scope entity and compensation arrangements in connection with resolution of an in-scope entity. It also provides that certain of the resolution planning and resolution tools apply to holding

companies of regulated entities, which could include the Issuer. Whilst the FI(R)O sets out a framework of the resolution regime in Hong Kong, much of the detail is to be legislated through secondary legislation and supporting rules, and as such the impact of it on the Group cannot currently be fully accurately assessed. In addition, the International Association of Insurance Supervisors (the “IAIS”) carried out a consultation during 2016 to collate views on a new capital and supervisory framework for internationally active insurance groups, due to come into effect during 2019. There is no certainty as to the specific outcomes of this consultation and how the proposals of the IAIS might be implemented in Hong Kong or any other jurisdiction.

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.

**Certain regulatory requirements of the OCI may limit the flexibility of the Group or affect the Issuer’s ability to fulfil its obligations under the Securities.**

Pursuant to undertakings provided to the Insurance Authority in connection with the approval of the Acquisition by the Insurance Authority, as well as separate letters issued to FWD Life Hong Kong and FWD General Insurance Company Limited (“FWD General Insurance”) by the Insurance Authority (“Section 35 Orders”), the entities within the Group are subject to certain requirements that may limit the Group’s flexibility. These requirements include, among other things, that FWD Life Hong Kong and FWD General Insurance conduct transactions with specified persons related to the Group on normal commercial terms and that they maintain minimum solvency ratio targets. In addition, dividends may not be declared or paid to the Issuer without first obtaining written consent from the Insurance Authority and 60 days’ (or such shorter period as the Insurance Authority may allow) prior written notice must be given to the Insurance Authority of any intention to make borrowings. The Insurance Authority may require FWD Life Hong Kong and FWD General Insurance to achieve certain regulatory solvency ratios before it approves payment of dividends, and these solvency ratios may be higher than the solvency ratios of these businesses from time to time. Any factor that prevents the payment of dividends to the Issuer by any of the businesses within the Group, including the imposition of additional requirements by the Insurance Authority or a failure by the Group to meet the requirements of the Insurance Authority, may have an adverse effect on the Issuer’s ability to fulfil its obligations under the Securities and could have a material adverse effect on the Group’s business, financial condition and results of operations. See “Description of the Group—Supervision and Regulation—Regulatory orders specific to the Group” and “—Risks Relating to the Securities—As a holding company, the Issuer is dependent upon its subsidiaries to cover operating expenses and to fulfil its obligations under the Securities”.

**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.

**Hong Kong’s relationship with the rest of the PRC and the PRC’s governmental policies are unpredictable and could disrupt the Group’s business, financial condition and results of operations.**

The Group’s operations are largely based in Hong Kong, and a majority of the Group’s revenue is derived from operations conducted in Hong Kong. As a result, the Group’s financial condition and results of operations may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy and the economies of the surrounding region, particularly the PRC.

Hong Kong is a special administrative region of the PRC with its own local government. Hong Kong enjoys a high degree of autonomy from the PRC under the principle of “one country, two systems”. However, there is no assurance that the Group’s business will not be adversely affected as a consequence of the exercise of PRC sovereignty over Hong Kong. Furthermore, the Group depends to an increasing extent on customers based in the

PRC. For the half year ended 30 June 2016, approximately 22 per cent. of the Group's customers were based in the PRC, and PRC customers have accounted for an increasing amount of the new business premiums paid by individuals in the Hong Kong insurance market in the past few years.

In October 2016, China UnionPay, the largest bank card scheme operator in the PRC, issued guidelines restricting the use of UnionPay cards for investment-related insurance products in Hong Kong. Any further changes in PRC government policy or changes in the rules or policies of market participants such as finance or payment system providers or intermediaries that, for example, make it more difficult or costly for PRC customers to purchase insurance products in the Hong Kong market or, conversely, encourage companies in the PRC insurance market to expand their businesses into Hong Kong, could materially and adversely affect the Group's business, financial condition and results of operations.

## **RISKS RELATING TO THE SECURITIES**

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

The Group's life insurance, general insurance, employee benefits and financial planning businesses are conducted through its five 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.

FWD Life Hong Kong and FWD General Insurance are not permitted to pay dividends to the Issuer without first obtaining written consent from the Insurance Authority, and the Insurance Authority may require FWD Life Hong Kong and FWD General Insurance 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. See "*—Risks Relating to the Group's Industry—Certain regulatory requirements of the OCI may limit the flexibility of the Group or affect the Issuer's ability to fulfil its obligations under the Securities*".

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 Securities.

### **The Securities may not be a suitable investment for all investors.**

The Securities are complex investment securities. Sophisticated institutional investors generally purchase complex investment securities as a way to reduce risk or enhance yield. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Securities 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 Securities, the merits and risks of investing in the Securities 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 Securities 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 Securities;
- understand thoroughly the terms of the Securities 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.

### ***Obligations of the Issuer under the Securities are structurally subordinated to the liabilities and obligations of the Issuer's subsidiaries.***

As a holding company that operates through its subsidiaries and other Group entities, (i) the Issuer's obligations under the Securities will be effectively subordinated to all existing and future obligations of its existing or future

operating subsidiaries and (ii) all claims of creditors of its existing or future operating subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) of the operating subsidiaries will have priority as to the assets of such entities over the Issuer's claims and those of its creditors, including the holders of Securities.

As at 30 June 2016, the Issuer's subsidiaries had total liabilities (excluding amounts owed to the Issuer and to policyholders) of U.S.\$236.1 million. In Hong Kong and Macau, laws and regulations applicable to insurance companies contain provisions whereby policyholders are given priority over the claims of other creditors. See "*—Risks Relating to the Group's Industry—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 Securities are perpetual securities and investors have no right to require redemption.***

The Securities are perpetual and have no maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securities can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities.

***The Securities are subordinated obligations.***

The obligations of the Issuer under the Securities 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 Securities 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 Securities 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 Securities.

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

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 Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders of Securities on a Winding-Up of the Issuer, and may increase the likelihood of a deferral of Distribution under the Securities. 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 Securities and/or the ability of Holders to sell their Securities.

***Holders may not receive Distribution payments if the Issuer elects to defer Distribution payments.***

The Issuer may, at its sole discretion, elect to defer any scheduled Distributions or Arrears of Distribution on the Securities for any period of time unless there has been a breach of the provisions set out under "*Restrictions in the case of Deferral*" in Condition 4(e)(iv). The Issuer is not subject to any limits as to the number of times Distributions or Arrears of Distribution can be deferred. Although Arrears of Distributions following a deferral are cumulative, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral election notices to Holders of the Securities. Any such deferral will not constitute a default for any purpose.

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of debt securities on which original issue discount, interest or distribution accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

***The Securities may be redeemed at the Issuer's option on the first call date and every six months thereafter or the occurrence of certain other events.***

The Securities are redeemable at the option of the Issuer on the First Call Date (as defined in the Terms and Conditions) and on every Distribution Payment Date (as defined in the Terms and Conditions) thereafter at their principal amount together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

In addition, the Issuer also has the right to redeem the Securities at the redemption prices set out in the Terms and Conditions (i) for taxation reasons, (ii) in the event of a change to the equity credit assigned to the Securities by a Rating Agency (as defined in the Terms and Conditions), (iii) if the Securities must not or must no longer be recorded as “equity” by the Issuer, pursuant to IFRS or any other generally accepted accounting standards adopted by the Issuer, (iv) upon a Change of Control (as defined in the Terms and Conditions) and (v) if at least 80 per cent. of the principal amount of the Securities originally issued (including any further Securities issued pursuant to Condition 13 (*Further Issues*)) and consolidated and forming a single series with the Securities) has already been redeemed or purchased and cancelled.

The date on which the Issuer elects to redeem the Securities may not accord with the preference of individual Holders. This may be disadvantageous to the Holders in light of market conditions or the individual circumstances of the Holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

***There are limited remedies for non-payment under the Securities.***

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Terms and Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due and the Issuer fails to make the payment when due. The only remedy against the Issuer available to Holders of Securities for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting Winding-Up proceedings and/or proving and/or claiming in Winding-Up in respect of any of the Issuer’s payment obligations arising from the Securities. The right to institute Winding-Up proceedings and/or proving and/or claiming in Winding-Up in respect of any of the Issuer’s payment obligations arising from the Securities is limited to circumstances provided by applicable law.

***Changes in accounting standards may impact the Issuer’s financial condition or the characterisation of the Securities.***

There can be no assurance that the adoption of new accounting policies or new IFRS will not have a significant impact on the Issuer’s financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, IFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as “equity” of the Issuer, and will give the Issuer the right to redeem the Securities. See “*The Securities may be redeemed at the Issuer’s option on the first call date and every six months thereafter or the occurrence of certain other events*”.

***The insolvency laws of the Cayman Islands may differ from those of other jurisdictions with which the Holders of the Securities are familiar.***

The Issuer is incorporated under the laws of the Cayman Islands, and any insolvency proceeding relating to the Issuer would likely involve Cayman insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of insolvency laws of jurisdictions with which the Holders of the Securities are familiar. The Issuer cannot give any assurance that any deferred Distributions would constitute a claim under applicable insolvency laws of the Cayman Islands with the same ranking as would be afforded to such deferred Distributions in other jurisdictions.

***An active trading market for the Securities may not develop.***

The Securities are a new issue of securities for which there is currently no trading market. Application has been made for the listing of, and permission to deal in, the Securities by way of an issue to professional investors only (as described in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder on the SEHK. No assurance can be given that an active trading market for the Securities will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their Securities or the price at which Holders will be able to sell their Securities. The Joint Lead Managers are not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the discretion of the Joint Lead Managers. In addition, the Securities are being offered pursuant to exemptions from registration under the Securities Act, and as a result, holders will only be able to resell their Securities 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 Securities following the offering may be volatile.***

The price and trading volume of the Securities may be highly volatile. Factors such as variations in the Issuer’s revenues, earnings and cash flows; new investments, strategic alliances and/or acquisitions; interest rates and

fluctuations in prices for comparable companies could cause the price of the Securities to change. Any such developments may result in large and sudden changes in the volume and price at which the Securities will trade. There is no assurance that these developments will not occur in the future.

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

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

***The Issuer's credit rating may decline.***

The Issuer's credit rating may change as a result of changes in its operating performance or capital structure, or for other reasons. No assurance can be given that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgement, circumstances in the future so warrant or if a different methodology is applied to derive such credit rating. Any lowering or withdrawal of the Issuer's credit rating could, notwithstanding that it is not a rating of the Securities, adversely impact the market price and the liquidity of the Securities.

***The ratings assigned to the Securities may be lowered or withdrawn in the future.***

The Securities are expected to be assigned a rating of "[BB+]" by Fitch and "[Ba1]" by Moody's. The ratings address the Issuer's ability to perform its obligations under the Terms and Conditions and credit risks in determining the likelihood that payments will be made when due under the Securities but may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. The Group cannot assure investors that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. The Issuer does not have any obligation to inform Holders of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Securities may adversely affect the market price of the Securities.

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

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

***Holders could be adversely affected by a change in English law or administrative practice.***

The Terms and Conditions 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 practice after the date of this Offering Circular, and any such change could have a material adverse impact on the value of the Securities.

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

If an investor holds Securities that are not denominated in its home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Securities could result in an investor not receiving payments on those Securities. The Issuer will pay principal and distribution on the Securities 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 U.S. dollars would decrease (i) the Investor's Currency-equivalent yield on the Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Securities and (iii) the Investor's Currency-equivalent market value of the Securities.

***Integral multiples of less than the specified denomination.***

The denominations of the Securities are US\$200,000 and integral multiples of US\$1,000 in excess thereof. Therefore, it is possible that the Securities may be traded in amounts in excess of US\$200,000 that are not integral multiples of US\$200,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than US\$200,000 will not receive a definitive certificate in respect of such holding of Securities (should definitive certificates be printed) and would need to purchase a principal amount of Securities such that it holds an amount equal to one or more denominations. If definitive certificates are issued, Holders should be aware that Securities with aggregate principal amounts that are not an integral multiple of US\$200,000 may be illiquid and difficult to trade.

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

The Securities will be represented by beneficial interests in a Global Certificate, which will be registered in the name of a nominee of, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg (the "Clearing Systems"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Certificate. While the Securities are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems and the Issuer will discharge its payment obligations under the Securities by making payments to the Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the Clearing Systems to receive payments under the Securities. 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 Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Securities. 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 Securities are legal investments for it, (ii) the Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Securities 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 SECURITIES

*The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Securities, substantially as they will appear on the reverse of each of the definitive certificates evidencing the Securities.*

The U.S.\$[●] [●] per cent. subordinated perpetual capital securities (the “**Securities**”, which expression includes any further securities issued pursuant to Condition 13 (*Further issues*) and forming a single series therewith) of FWD Limited (the “**Issuer**”) are constituted by a deed of covenant dated [●] 2017 (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 [●] 2017 (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 Securities), 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 Securities), 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 Securities), 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 Securities) 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 Securities). 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 Securities 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 Securities**

- (a) *Status of the Securities:* The Securities 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 4(e)(vii) (*Distribution—Distribution Deferral—Definitions*)) of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in this Condition 2.
- (b) *Ranking of claims in respect of the Securities:* In the event of the Winding-Up (as defined in Condition 8(e) (*Non-payment—Definitions*)) of the Issuer, the rights and claims of the Holders in respect of the Securities shall rank ahead of those persons whose claims are in respect of any 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—Securities:* 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 Securities, and each Holder shall, by virtue of his holding of any Securities, 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 Securities 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 Securities outside the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Security means the person in whose name such Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each, a “**Certificate**”) will be issued to each Holder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

*Upon issue, the Securities will be represented by a Global 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 Certificate. See “The Global Certificate”.*

- (b) *Title:* The Holder of each Security shall (except as otherwise required by law) be treated as the absolute owner of such Security 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 Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such 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 Securities 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 Security may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, 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 Security may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Holder are being transferred) the principal amount of the balance of Securities not transferred are Authorised Denominations. Where not all the Securities represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Securities will be issued to the transferor.

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

- (d) *Registration and delivery of Certificates:* Within five business days of the surrender of a Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Securities 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, excluding a Saturday and a Sunday, 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 Certificate”), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates.*

- (e) *No charge:* The transfer of a Security 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:* Holders may not require transfers to be registered during (i) the period of 15 days ending on the due date for any payment of principal or Distribution (as defined in Condition 4(a) (*Distribution—Accrual of Distribution*)) in respect of the Securities or (ii) during the period of 15 days ending on (and including) any date on which the Securities may be called for redemption by the Issuer at its option pursuant to Condition 5 (*Redemption*).
- (g) *Regulations concerning transfers and registration:* All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The parties to the Agency Agreement may agree, without the consent of the Holders, to any modifications to any provisions thereof (including the regulations concerning the transfer of Securities). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder who requests in writing a copy of such regulations.

- (h) *Information Undertaking:* So long as any Security 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.

#### 4. Distribution

- (a) *Accrual of Distribution:* Subject to Condition 4(e) (*Distribution—Distribution Deferral*), the Securities confer a right to receive distribution (each a “**Distribution**”) from [●] 2017 (the “**Issue Date**”) at the Distribution Rate in accordance with this Condition 4. Subject to Condition 4(e) (*Distribution—Distribution Deferral*), Distribution shall be payable on the Securities semi-annually in arrear in equal instalments on [●] and [●] of each year (each, a “**Distribution Payment Date**”), with the first Distribution Payment Date falling in [●] 2017.

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (a) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Holder and (b) the day which is seven days after the Fiscal Agent has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

The amount of Distribution payable on each Distribution Payment Date shall be calculated by applying the prevailing Distribution Rate 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 Security 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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

Distribution payable under this Condition will be paid in accordance with Condition 6 (*Payments*).

- (b) *Rate of Distribution:* Subject to Condition 4(d) (*Increase in Distribution following a Change of Control*), the rate of distribution (“**Distribution Rate**”) applicable to the Securities shall be:
- (i) from, and including, the Issue Date to, but excluding, [●] (the “**First Call Date**”), [●] per cent. per annum; and
  - (ii) thereafter, in respect of the period from, and including, the First Call Date and each Reset Date falling thereafter to, but excluding, the immediately following Reset Date (each a “**Reset Period**”), at the relevant Reset Distribution Rate.
- (c) *Distribution Rate Determination:* The Calculation Agent will, on the relevant Calculation Date, determine the relevant Reset Distribution Rate in respect of the Securities. The Calculation Agent will cause such Reset Distribution Rate determined by it to be notified to the Fiscal Agent, each of the Paying Agents and the Holders as soon as possible after their determination but in any event no later than the fourth business day thereafter. If the Securities become due and payable under Condition 8 (*Non-payment*), the relevant Reset Distribution Rate and Distribution accrued per Calculation Amount shall nevertheless continue to be determined by the Calculation Agent in accordance with this Condition 4 but no publication of such Reset Distribution Rate so calculated need be made. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Agents and the Holders and (subject as aforesaid) no liability will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (d) *Increase in Distribution following a Change of Control:* Upon the occurrence of a Change of Control, unless an irrevocable notice to redeem the Securities has been given to Holders by the Issuer

pursuant to Condition 5(f) (*Redemption—Redemption upon a Change of Control*) by the 30<sup>th</sup> day following the occurrence of the Change of Control, the Distribution Rate will increase by 5.00 per cent. per annum from the then prevailing Distribution Rate with effect from (i) the next Distribution Payment Date; or (ii) if the date on which a Change of Control occurs is prior to the most recent preceding Distribution Payment Date, such Distribution Payment Date.

(e) *Distribution Deferral:*

- (i) *Optional Deferral:* The Issuer may, at its sole discretion, elect to defer (in whole or in part) Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice (an “**Optional Deferral Notice**”) to the Holders (in accordance with Condition 14 (*Notices*)) not more than 10 nor less than five Business Days prior to a scheduled Distribution Payment Date.
- (ii) *No obligation to pay:* The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 4(e)(i) (*Distribution—Distribution Deferral—Optional Deferral*) and any failure to pay Distribution shall not constitute a default of the Issuer in respect of the Securities.
- (iii) *Cumulative Deferral:* Any Distribution deferred pursuant to this Condition 4(e) shall constitute “**Arrears of Distribution**”. The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to this Condition 4(e) except that Condition 4(e)(iv) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the prevailing Distribution Rate and the amount of such interest (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 4 and shall be calculated by applying the prevailing Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 4. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

- (iv) *Restrictions in the case of Deferral:* If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of this Condition 4(e), the Issuer shall not, and shall procure that none of its Subsidiaries will:
  - (A) declare, pay or make any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is declared, paid or made on any Junior Obligations or Parity Obligations (except, in relation to the Parity Obligations of the Issuer, where such dividend, distribution or other payment is made on a *pro rata* basis with payment on the Securities), **provided that** such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or
  - (B) redeem, reduce, cancel, buy-back or acquire at its discretion for any consideration any Junior Obligations or Parity Obligations (except, in relation to the Parity Obligations of the Issuer, where such redemption, reduction, cancellation or buy-back is made on a *pro rata* basis with a *pro rata* purchase of Securities), **provided that** such restriction shall not apply to an exchange or conversion of any Parity Obligations in whole for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) is permitted to do so by an Extraordinary Resolution (as defined in the Agency Agreement) of the Holders.

(v) *Satisfaction of Arrears of Distribution by payment:* The Issuer:

- (A) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 14 (*Notices*)) and the Fiscal Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice); and
- (B) in any event must satisfy any outstanding Arrears of Distribution (in whole but not in part) on the earlier of (1) the date of redemption of the Securities in accordance with Conditions 5(b) (*Redemption—Redemption for tax reasons*), 5(c) (*Redemption—Redemption upon a ratings event*), 5(d) (*Redemption—Redemption for accounting reasons*), 5(e) (*Redemption—Redemption at the option of the Issuer*), 5(f) (*Redemption—Redemption upon a Change of Control*) or 5(g) (*Redemption—Redemption for minimum outstanding amount*); (2) the next Distribution Payment Date on the occurrence of a breach of Condition 4(e)(iv) (*Distribution—Restrictions in the case of Deferral*) and (3) the date such amount becomes due under Condition 8 (*Non-payment*).

Any partial payment of outstanding Arrears of Distribution by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.

(vi) *No default:* Notwithstanding any other provision in these Conditions, the deferral of any Distribution payment in accordance with this Condition 4(e) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 8 (*Non-payment*)) on the part of the Issuer.

(vii) *Definitions:* For the purposes of these Conditions:

“**Accounting Event**” means that an opinion of a recognised accountancy firm of international standing has been delivered to the Issuer and the Fiscal Agent, stating that as a result of a change or amendment to IFRS or any other generally accepted accounting standards adopted by the Issuer (the “**Relevant Accounting Standard**”), the Securities must not or must no longer be recorded as “equity” of the Issuer pursuant to the Relevant Accounting Standard.

“**Business Day**” means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and New York;

“**Calculation Date**” means the date falling two New York Business Days prior to each Reset Date;

A “**Change of Control**” occurs when:

- (A) Mr. Richard Li ceases to Control the Issuer;
- (B) any Person or Persons, other than Mr. Richard Li, 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.

“**Comparable Treasury Issue**” means the U.S. Treasury security selected by the Issuer as having a maturity of 5 years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of 5 years;

“**Comparable Treasury Price**” means:

- (A) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third New York Business Day preceding the relevant Reset Date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities”; or
- (B) if such release (or any successor release) is not published or does not contain such prices on such New York Business Day, (i) the average of the Reference Treasury Dealer Quotations for the relevant Reset Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if fewer than three such Reference Treasury Dealer

Quotations are available, the average of all such quotations, if the Comparable Treasury Price cannot be determined in accordance with the above provisions, as determined by the Independent Investment Bank;

“**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;

“**Distribution Period**” means each period commencing on, and including, the Issue Date or any Distribution Payment Date and ending on, but excluding, the next following Distribution Payment Date;

An “**Equity Credit Classification Event**” means an amendment, clarification or change having occurred in the methodology of a Rating Agency, which amendment, clarification or change results in the Securities being assigned a lower equity credit than the equity credit assigned to the Securities immediately prior to such amendment, clarification or change;

“**IFRS**” means International Financial Reporting Standards;

“**Independent Investment Bank**” means an independent investment bank of international repute (acting as an expert) selected by the Issuer (at the expense of the Issuer) and notified to the Fiscal Agent and Calculation Agent in writing;

“**Initial Spread**” means [●] per cent;

“**Junior Obligation**” means the ordinary shares of the Issuer or any other securities ranking *pari passu* therewith;

“**New York Business Day**” means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York;

“**Parity Obligation**” means 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 Securities, including, but not limited to, the 2,601,634 preference shares of U.S.\$0.01 each issued on 10 December 2013 and the 5,600,591 preference shares of U.S.\$0.01 each issued on 19 August 2015;

“**Person**” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity;

“**Rating Agency**” means one of Fitch Ratings Limited, Moody’s Investors Service, Inc. or any of their respective successors;

“**Reference Treasury Dealer**” means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in New York, selected by the Issuer (at the expense of the Issuer);

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and any Reset Date, the average as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5:00 p.m. on the third business day pursuant to Condition 4 (*Distribution*)) preceding such Reset Date;

“**Reset Date**” means the First Call Date and each date that falls five, or a multiple of five, years following the First Call Date;

“**Reset Distribution Rate**” means, in respect of any respective Reset Period, the sum of (x) the U.S. Treasury Benchmark Rate in relation to that Reset Period and (y) the Initial Spread;

“**Special Event Redemption Price**” means (a) prior to the First Call Date, 101 per cent. of the outstanding principal amount or (b) subsequent to the First Call Date, the outstanding principal amount, in each case together with Distribution accrued but unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount);

“**Subsidiary**” or “**Subsidiaries**” of any Person means:

- (A) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50 per cent. of the total ordinary voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or persons performing similar functions); or
- (B) any partnership, joint venture limited liability company or similar entity of which more than 50 per cent. of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person; and

“**U.S. Treasury Benchmark Rate**” means the rate notified by the Calculation Agent to the Issuer and the Holders (in accordance with Condition 14 (*Notices*)) in per cent. per annum equal to the yield, under the heading that represents the average for the week ending two New York Business Days prior to each Reset Date for calculating the Distribution Rate under sub-paragraphs (b)(ii) and (iii) (*Rate of Distribution*) of Condition 4 (*Distribution*), appearing in the most recently published statistical release designated “H.15(519)” (weblink: <http://www.federalreserve.gov/releases/h15/current/default.htm>) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity corresponding to the Comparable Treasury Issue. If such release (or any successor release) is not published during the week preceding the relevant date for calculation or does not contain such yields, “**U.S. Treasury Benchmark Rate**” means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the applicable Reset Date under paragraph Condition 4(b) (*Distribution—Rate of Distribution*);

## 5. Redemption

- (a) *No fixed redemption date*: The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 2 (*Status and Subordination of the Securities*) and without prejudice to Condition 8 (*Non-payment*)), only have the right to redeem or purchase them in accordance with the following provisions of this Condition 5.
- (b) *Redemption for tax reasons*: The Securities 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 their principal amount, together with Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or 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 [●] 2017; and (B) 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 Securities were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 5(b), 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 (A) and (B) above prevail and setting out the details of such circumstances; 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 5(b), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(b).

- (c) *Redemption upon a ratings event:* The Securities 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 an Equity Credit Classification Event at the Special Event Redemption Price.

Prior to the publication of any notice of redemption pursuant to this Condition 5(c), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances.

Upon the expiry of any such notice as is referred to in this Condition 5(c), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(c), **provided that** such date for redemption shall be no earlier than the last day before the date on which the Securities be assigned a lower category of equity credit.

- (d) *Redemption for accounting reasons:* The Securities 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 an Accounting Event at the Special Event Redemption Price.

Prior to the publication of any notice of redemption pursuant to this Condition 5(d), 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 above prevail and setting out the details of such circumstances; and
- (ii) an opinion of the Issuer's independent auditors stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the Relevant Accounting Standard is due to take effect, provided that the Fiscal Agent may accept such certificate or opinion without further investigation or enquiry,

**provided, however that** no notice of redemption may be given under this Condition 5(d) earlier than 90 days prior to the date on which the relevant change or amendment to the Relevant Accounting Standard is due to take effect in relation to the Issuer.

Upon the expiry of any such notice as is referred to in this Condition 5(d), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(d) **provided that** such date for redemption shall be no earlier than the last day before the date on which the Securities must not or must no longer be so recorded as "**equity**" of the Issuer pursuant to the Relevant Accounting Standard.

- (e) *Redemption at the option of the Issuer:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, on the Distribution Payment Date falling in [●] or on any Distribution Payment Date thereafter (each, a "**Call Settlement Date**") on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant Call Settlement Date at their principal amount plus Distribution accrued to such date (including any Arrears of Distribution and any Additional Distribution Amount)).
- (f) *Redemption upon a Change of Control:* The Securities 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 in Control at the Special Event Redemption Price.

*The Issuer intends that, prior to or concurrent with exercising its redemption right set out in this Condition 5(f), it will make an offer to all unsubordinated creditors, present and future, of the Issuer and all subordinated creditors of the Issuer other than those whose claims (whether only in the event of the Winding-up of the Issuer or otherwise) are in respect of Junior Obligations or Parity Obligations (the "**Senior Creditors**") to repurchase any current or future indebtedness of the Issuer to Senior Creditors, in the form of, or represented or evidenced by bonds, notes, debentures or other similar securities or instruments (or a guarantee thereof) which does not include protection for the holders thereof in the event of a change of control (however defined) (the "**Relevant Securities**") at the lower of (i) their market value or (ii) par plus accrued interest.*

- (g) *Redemption for minimum outstanding amount:* The Securities 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 will be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amounts) if prior to the date of such notice at least 80 per cent. in principal amount of the Securities originally issued (including any further Securities issued pursuant to Condition 13 (*Further Issues*) and consolidated and forming a single series with the Securities) has already been redeemed or purchased and cancelled.

- (h) *No other redemption:* The Issuer shall not be entitled to redeem the Securities and shall have no obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 5(b) (*Redemption for tax reasons*) to 5(g) (*Redemption for minimum outstanding amount*) above.
- (i) *Cancellation:* All Securities so redeemed by the Issuer shall be cancelled and may not be reissued or resold.

## 6. 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 Security 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 Certificates at the Specified Office of any Paying Agent.
- (b) *Distribution:* Payments of Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall be made in U.S. dollars by U.S. dollar cheque drawn on, or upon application by a Holder of a Security 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 Distribution payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Securities are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*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 7 (*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 (i) (in the case of payments of principal and Distribution payable on redemption) on the later of the due date for payment and the day on which the relevant 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 Distribution payable other than on redemption) on the due date for payment. A Holder of a Security shall not be entitled to any Distribution 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 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day, other than a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

*So long as the Securities are represented by the Global 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.*

- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Security, 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 Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.



- (f) *Record date:* Each payment in respect of a Security 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 Security is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (g) *Calculations:* The Agents shall not be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Holders or any other person for not doing so.

## 7. **Taxation**

All payments of principal and Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities 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 or 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 Security:

- (i) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Security 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 Security; or
- (ii) where (in the case of a payment of principal or Distribution on redemption) the relevant 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 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, Distribution, Arrears of Distribution or Additional Distribution Amount shall be deemed to include any additional amounts in respect of principal, Distribution, Arrears of Distribution or Additional Distribution Amount (as the case may be) which may be payable under this Condition 7 (*Taxation*).

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Cayman Islands or Hong Kong, respectively, references in these Conditions to the Cayman Islands or Hong Kong shall be construed as references to the Cayman Islands or (as the case may be) 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 this Condition 7 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 Securities without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

## 8. **Non-payment**

- (a) *Non-payment when due:* Notwithstanding any of the provisions below in this Condition 8, the right to institute Winding-Up (as defined in Condition 8(e) (*Non-payment—Definitions*)) proceedings is limited to circumstances where payment has become due and is unpaid. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 4(e) (*Distribution—Distribution Deferral*).
- (b) *Proceedings for Winding-Up:* If (i) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (ii) the Issuer shall not make payment in respect of the Securities for a

period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Securities and Holders holding not less than 15 per cent. of the aggregate principal amount of the outstanding Securities may institute proceedings for the Winding-Up of the Issuer and/or prove in the Winding-Up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

- (c) *Enforcement:* Without prejudice to Condition 8(b) (*Non-payment—Proceedings for Winding-Up*), Holders holding not less than 15 per cent. of the aggregate principal amount of the outstanding Securities may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Securities (other than any payment obligation of the Issuer under or arising from the Securities, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (d) *Extent of Holders' remedy:* No remedy against the Issuer, other than as referred to in this Condition 8, shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities.
- (e) *Definitions:* In these Conditions, “**Winding-Up**” means 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.

The Agents shall not be required to take any steps to ascertain whether a non-payment, Winding Up of the Issuer or enforcement has occurred and shall not be responsible or liable to the Holders, the Issuer or any other person for any loss arising from any failure to do so.

## 9. Prescription

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

## 10. Replacement of Certificates

If any 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 Certificates must be surrendered before replacements will be issued.

## 11. Agents

In acting under the Agency Agreement and in connection with the Securities, 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 Holders.

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, fiscal agent, agent bank and additional or successor paying agents and transfer agent; **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 Holders.

## 12. Meetings of Holders; Modification

- (a) *Meetings of Holders:* The Agency Agreement contains provisions for convening meetings of Holders to consider matters relating to the Securities, 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 them upon the request in writing of Holders holding not less than one tenth of the aggregate principal amount of the outstanding Securities. 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 Securities or, at any adjourned meeting, two or more persons being or representing Holders whatever the principal amount of the Securities held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, to reduce the amount of principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) payable on any date in respect of the Securities, to alter the method of calculating the amount of any payment in respect of the Securities or the date for any such payment, to change the currency of payments under the Securities, 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 Holders 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 Securities form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Holders, whether present or not.

In addition, (i) a resolution in writing signed by or on behalf of Holders of not less than 90 per cent. of the aggregate principal amount of Securities 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 Holders and (ii) a resolution passed by way of electronic consents through the clearing systems by or on behalf of Holders of not less than 75 per cent. in aggregate principal amount of Securities 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.

*So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Holders 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.*

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

### 13. Further Issues

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

### 14. Notices

Notices to the Holders 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.

### 15. Governing Law and Jurisdiction

- (a) *Governing law:* The Securities and any non-contractual obligations arising out of or in connection with the Securities 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 Securities—Status of the Securities*), Condition 2(b) (*Status and Subordination of the Securities—Ranking of claims in respect of the Securities*) and Condition 2(c) (*Status and Subordination of the Securities—Set-off—Securities*) 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 Securities (including any non-contractual obligation arising out of or in connection with the Securities).
- (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.

## THE GLOBAL CERTIFICATE

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

The Global Certificate will become exchangeable in whole, but not in part, for Individual Certificates if (a) Euroclear or Clearstream, Luxembourg 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) upon a Winding-Up of the Issuer.

Whenever the Global Certificate is to be exchanged for Individual Certificates, such Individual Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global 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 Securities 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 Individual 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 Certificate, then, at 5:00 p.m. (local time) on such thirtieth day the Registrar shall in respect of each person shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interest in the Securities (each an "**Accountholder**"), enter in the Register the name of such Accountholder as the holder of direct rights under the deed of covenant dated [●] 2017 (the "**Deed of Covenant**") in respect of the Securities in an aggregate principal amount equal to the principal amount shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) of such Accountholder's interest in the Securities. To the extent that the Registrar makes such entries in the Register, the holder will have no further rights under the Global 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 Securities in an aggregate principal amount equal to the principal amount of Securities they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

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

*Payment Business Days:* In the case of all payments made in respect of the Global 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 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 Certificate is being held is open for business.

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

## **USE OF PROCEEDS**

The net proceeds from the offering of the Securities, after deducting the underwriting commission and expenses, are estimated to be approximately U.S.\$[●] million. The Issuer intends to use the net proceeds for the Issuer's general corporate purposes, including but not limited to, servicing and/or repayment of the Issuer's own indebtedness, including the Securities.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Issuer's consolidated capitalisation and indebtedness as of 30 June 2016 on an actual basis and as adjusted to give effect to (i) the sale of the Securities in this offering, with estimated net proceeds of approximately U.S.\$[●] million after deducting the underwriting commission and other estimated expenses payable by the Issuer in connection with the offering of the Securities. This table should be read in conjunction with the unaudited reviewed consolidated financial statements and the notes thereto appearing elsewhere in this Offering Circular.

	As of 30 June 2016	
	Actual	Adjusted
	(U.S.\$ thousands)	
<b>Borrowings:</b>		
Notes outstanding .....	420,200	420,200
<b>Total debt</b> .....	420,200	420,200
<b>Equity:</b>		
Issued capital .....	268	268
Share premium .....	1,837,844	1,837,844
Capital redemption reserve .....	18,302	18,302
Share-based payment reserve .....	25,734	25,734
Legal reserve .....	1,561	1,561
Cash flow hedge reserve .....	(1,272)	(1,272)
Available-for-sale financial assets revaluation reserve .....	213,868	213,868
Foreign currency translation reserve .....	(109)	(109)
Retained earnings/(accumulated losses) .....	26,085	26,085
Total securities to be issued .....	—	[●]
<b>Total equity</b> .....	2,122,281	[●]
<b>Total capitalisation<sup>(1)</sup></b> .....	2,542,481	[●]

*Note:*

(1) Total capitalisation represents the sum of total debt and total equity.

Save as indicated above, there has been no material change in the capitalisation and indebtedness of the Issuer since 30 June 2016.

## DESCRIPTION OF THE GROUP

### OVERVIEW

The Group comprises life insurance, general insurance, employee benefits and financial planning businesses in Hong Kong and Macau, including the ninth largest life insurance company in Hong Kong on an APE basis as of 30 June 2016 (according to OCI statistics) and the fifth largest life insurance company in Macau on an APE basis as of 30 June 2016 (according to AMCM statistics). The businesses within the Group have operated for 32 years in Hong Kong and for 17 years in Macau. 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 shareholders, Richard Li and Swiss Re.

As of 30 June 2016, the Group had total assets of U.S.\$11,116.7 million and total equity of U.S.\$2,122.3 million. For FY2015 and HY2016, the Group had a loss after income tax expenses of U.S.\$ 0.7 million and U.S.\$ 16.3 million, respectively.

Life insurance is the Group's largest business line. The Group's life insurance subsidiaries, FWD Life Hong Kong and FWD Life Macau, produced a profit after income tax expenses of U.S.\$1.8 million and U.S.\$0.7 million, respectively, for the period ended 30 June 2016. For the years ended 31 December 2015 and the period ended 30 June 2016, the VNB of FWD Life Hong Kong was U.S.\$97.6 million and U.S.\$55.3 million, respectively, representing VNB margins of 40.4 per cent. and 44.6 per cent., respectively. For the years ended 31 December 2015 and the period ended 30 June 2016, the VNB of FWD Life Macau was U.S.\$3.6 million and U.S.\$2.0 million, respectively, representing VNB margins of 46.8 per cent. and 55.6 per cent., respectively.

The Group also places strategic importance on its general insurance business to generate profit and to acquire new customers. The Group's general insurance subsidiary, FWD General Insurance, produced a profit after income tax expenses of U.S.\$1.3 million and U.S.\$2.1 million for the years ended 31 December 2015 and the period ended 30 June 2016, respectively.

The Group's focus on value creation is evidenced by the strong growth in VNB in recent periods, as over the three years ended 30 June 2016, the CAGR of the Life Businesses' VNB was 34.2 per cent. The Group strives to maintain a well-balanced distribution platform, including agency, bancassurance, brokerage and direct channels. For the period ended 30 June 2016, the agency, bancassurance, brokerage and direct channels represented 46.5 per cent., 23.1 per cent., 24.2 per cent. and 6.2 per cent., respectively, of the Life Businesses' APE.

On 30 June 2016, the Group acquired a 100 per cent. interest in Great Eastern (Life) Co. Ltd (Vietnam) in Vietnam ("**Great Eastern**") for a total consideration of U.S.\$35.9 million. Following the acquisition, Great Eastern has become a wholly-owned subsidiary of the Group and has been rebranded. Great Eastern is currently held by FWD Life Hong Kong and is accounted for as 'Held for Sale' in the Group's unaudited reviewed consolidated financial statements for HY2016. Subject to regulatory approval, the Group intends to transfer Great Eastern in the near future to FWD Group Financial Services Pte. Ltd. as part of a corporate restructuring exercise. The transfer amount paid to FWD Life Hong Kong will be equivalent to the acquisition cost.

On 3 August 2016, the Group entered into an agreement to sell its MPF and ORSO business, including the pension trustee company, FWD Pension Trust, to Sun Life Hong Kong Limited ("**Sun Life**"). The Group and Sun Life will also enter into a 15-year strategic distribution agreement allowing FWD Life Hong Kong's agents to distribute Sun Life's MPF and ORSO products in the Hong Kong market. The transaction is expected to complete during 2017-2018 subject to regulatory approvals.

### FORMATION OF THE GROUP

#### History

The Group's businesses have a long history in Hong Kong. Its Hong Kong life insurance business, the oldest member of the Group, was originally incorporated in 1977 in Bermuda by Aetna Inc. ("**Aetna**") as Rauco Insurance Company Limited and, following a change of name in 1984 to East Asia Aetna Insurance Company (Bermuda) Limited, was registered as a Part XI company in Hong Kong on 31 August 1984. In the same year, a branch of Nationale-Nederlanden Internationale Schadeverzekering N.V., which would eventually become the Group's general insurance business, was also registered as a Part XI company in Hong Kong, first trading as N.V. The Netherlands Insurance Company Est. 1845 and then, starting in March 2001, as ING General Insurance International. The Group's financial planning business was originally incorporated in 1997 in Hong Kong by ING as ING Insurance Consultants (Hong Kong) Limited. Two years later, in 1999, the Group's Hong Kong employee benefits and Macau life insurance operations were established through the incorporation by Aetna of Winsley Company Limited in Hong Kong and East Asia Aetna Insurance Company (Macau) Limited in Macau, respectively. Following an internal reorganisation by Aetna in 2000, ING acquired from Aetna 100 per cent. of

the Hong Kong and Macau life insurance and Hong Kong employee benefits businesses, and in 2005 ING incorporated in Hong Kong the ING General Insurance Company Limited into which ING General Insurance International's portfolio was transferred, finally bringing together all five of the Group's operating companies under ING ownership.

### **Acquisition by Richard Li and Swiss Re**

The Issuer was incorporated by Richard Li on 13 December 2012 for the purpose of acquiring a 100 per cent. interest in the Hong Kong and Macau life insurance businesses and Hong Kong general insurance, employee benefits and financial planning businesses of ING. On 28 February 2013, the Issuer completed the Acquisition. Subsequent to the Acquisition, Swiss Re has made two investments in the Issuer and currently has a 14.9 per cent. shareholding in the Group. In connection with approval of the Acquisition by the Insurance Authority, certain undertakings were provided to the Insurance Authority and the separate Section 35 Orders were issued to FWD Life Hong Kong and FWD General Insurance as more fully described below in "*—Supervision and Regulation—Regulatory orders specific to the Group*".

### **Creation of the FWD brand**

In 2013, the Group launched the FWD brand, including the change of the corporate name of (i) the Hong Kong life insurance business from ING Life Insurance Company (Bermuda) Limited to FWD Life Insurance Company (Bermuda) Limited, (ii) the Hong Kong general insurance business from ING General Insurance Company Limited to FWD General Insurance Company Limited, (iii) the Macau life insurance business from ING Life Insurance Company (Macau) Limited to FWD Life Insurance Company (Macau) Limited, (iv) the Hong Kong employee benefits business from ING Pension Trust Limited to FWD Pension Trust Limited ("**FWD Pension Trust**") and (v) the Hong Kong financial planning business from ING Financial Planning Limited to FWD Financial Planning Limited ("**FWD Financial Planning**"). In December 2013, the Issuer also changed its name from PCG International Holdings Limited to FWD Limited.

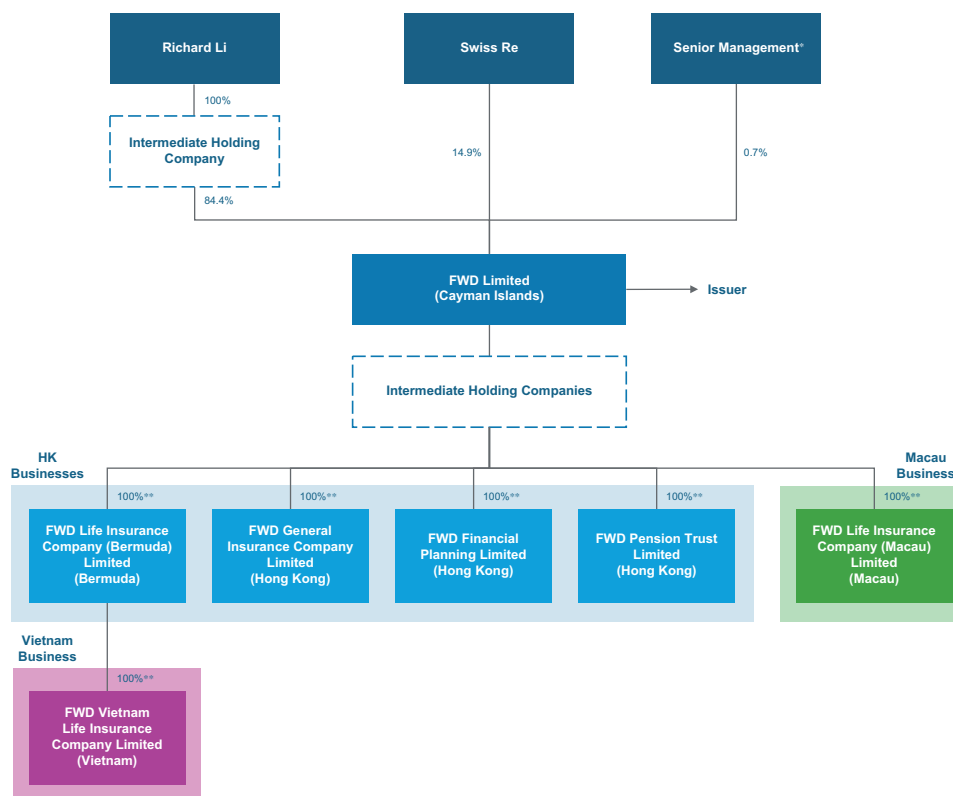
The Group has undertaken a number of initiatives to establish the FWD corporate brand, including print and outdoor advertisements (for example, in Hong Kong the LED signage at the Excelsior Hotel, advertisements on tram shelters and buses and in MTR stations, and a series of printed advertisements and press releases in newspaper and magazines), advertisements on television and through online media (for example, the Group's ongoing television advertising campaign in Hong Kong starting in October 2013) and face-to-face interactions with the Group's customers (for example, the large scale client update campaign to provide review services for all customers in the last quarter of 2013). The Group has also undertaken internal measures to increase staff and agent engagement with the new brand.

The Group believes that its branding efforts have been successful, with a recent Clusters Brand Tracking Report showing that the Group outperforms other insurers in Hong Kong across selected brand categories including "different", "innovative", "attuned with current times" and "refreshing".



## Group Structure

The Issuer is the holding company of companies including the following five operating subsidiaries: FWD Life Hong Kong, FWD Life Macau, FWD General Insurance, FWD Pension Trust and FWD Financial Planning. The following chart is a simplified presentation of the structure of the Group as of the date of this Offering Circular:



\* On 9 January 2017, the compensation committee of the board approved the issue and allotment of 50,000 ordinary shares to a member of senior management, which have vested pursuant to the terms of the senior manager's employment contract. As at the date of this Offering Circular, the ordinary shares have not yet been issued and allotted to the member of senior management.

\*\* Effective ownership by FWD Limited.

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

	As of and for the period ended 30 June 2016					
	Total Revenue		Total Assets		Total Equity	
	(U.S.\$ million)	(% of Group)	(U.S.\$ million)	(% of Group)	(U.S.\$ million)	(% of Group)
FWD Limited	925.1	100.0%	11,116.7	100.0%	2,122.3	100.0%
FWD Life Hong Kong <sup>(1)</sup>	877.0	94.8%	10,575.3	95.1%	2,316.5	109.2%
FWD General Insurance <sup>(1)</sup>	22.4	2.4%	143.4	1.3%	61.1	2.9%
FWD Life Macau <sup>(1)</sup>	24.3	2.6%	358.8	3.2%	131.3	6.2%
FWD Pension Trust <sup>(1)</sup>	2.7	0.3%	29.6	0.3%	28.1	1.3%
FWD Financial Planning <sup>(1)</sup>	0.6	0.1%	3.1	0.1%	2.9	0.1%

Note:

(1) Before intercompany eliminations, with the exception of goodwill, which has been allocated between the total assets and total equity of FWD Life Hong Kong and FWD Life Macau on the basis of their respective VOBA balances at the Acquisition date.

## SHAREHOLDERS

### Richard Li

The Group benefits from the support of its majority shareholder, Richard Li, who indirectly holds an 84.4 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 14.9 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, neither Richard Li nor Swiss Re are permitted to transfer their interests in the Issuer for a period of three years following the date of the Shareholders’ Agreement, and, 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.

## **Potential New Shareholders**

The Issuer and its major shareholders are actively considering a number of potential financing initiatives, including an investment in FWD’s South East Asian business through the injection of additional capital into FWD Group Ltd by new investors in the form of additional ordinary shares or preference shares. Should this investment proceed, in accordance with the Shareholders’ Agreement requirements, there would be an additional investment by the new investors in the form of ordinary shares or preference shares of the Issuer. Any investment proceeds received by the Issuer as a portion of the total is expected to be small and thus will be immaterial to the Group. If any such investments were to progress, they would be subject to final board approvals and relevant regulatory approvals, including from the OCI.

## **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 and direct channels to reduce dependency on any single distribution channel. By contrast, the Group believes that many of its competitors in Hong Kong and Macau rely on only one or two distribution channels. The agency, bancassurance, brokerage and direct channels contributed 46.5 per cent., 23.1 per cent., 24.2 per cent. and 6.2 per cent., respectively, of APE of the Life Businesses for the period ended 30 June 2016. Due to the integrated nature of the Group, FWD Life Hong Kong’s tied agents are also able to offer FWD General Insurance and FWD Pension Trust products, enabling its agents to offer comprehensive, one-stop insurance solutions. The Group believes that the quality of its agency force is evidenced by the fact that approximately 8.6 per cent. of its agents were members of the internationally recognised Million Dollar Round Table (“**MDRT**”) as of 31 December 2015. The Group also has a wide bancassurance network with distribution arrangements in place with several banks in Hong Kong and Macau, including key bank partnerships with Bank of Communications Co., Ltd. Hong Kong Branch (“**BoComm**”) and China Construction Bank (Asia) Corporation Limited (“**CCBA**”). Additionally, the Group has a network of professional brokers, numbering more than 250 as of 30 June 2016, and provides key brokers with dedicated relationship managers to further strengthen those relationships. Brokerage is currently the fastest growing of the Group’s three distribution channels. Finally, the Group started its online, direct to customer channel, iFWD, in 2015. iFWD has quickly become the top online channel in Hong Kong and has held the top market position for three consecutive quarters through 30 June 2016. The Group offers both life and general insurance products through iFWD.

### **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, and investment plans through the Life Businesses; travel, home, property and commercial insurance products through FWD General Insurance; and employee benefit products through FWD Pension Trust. The Group believes its diversified product mix allows the Group to create more business value and rapidly address changing market needs. This product diversification also supports the Group's development of balance in its distribution channels, with the agency channel focused on accident, health, protection and long-term savings products, the bancassurance channel focused on wealth management and short-term endowment products, the brokerage channel focused on high net worth savings, investment and health products, and iFWD focused on simple life and general insurance products designed to appeal to the e-generation.

### **Strong relationships with customers**

The Group believes it has a loyal and growing customer base. As of 30 June 2016, the Group had approximately 487,000 customers, approximately 196,000 of whom were customers of FWD Life Hong Kong. Among FWD Life Hong Kong's customers, approximately 38.1 per cent. have held policies for more than 10 years as of 30 June 2016, and approximately 23.7 per cent. have been with FWD Life Hong Kong for 16 years or more. A large portion of FWD Life Hong Kong's customers (approximately 51.1 per cent. as of 30 June 2016) is between 30 and 49 years of age, which the Group considers to be prime insurance buying years. The Group has also benefitted from increasing numbers of customers based in the PRC purchasing insurance products in Hong Kong.

### **Established track-record with solid market positioning**

FWD Life Hong Kong has held a top ten market position in life insurance by APE since 2010 and ranks ninth by APE as of 30 June 2016 (according to OCI statistics). Similarly, FWD Life Macau holds the fifth position in Macau in market share by APE as of 30 June 2016 (according to AMCM statistics). The businesses within the Group have experienced steady growth over the three years ended 30 June 2016, as evidenced by a CAGR of 4.8 per cent. in APE in its Hong Kong life insurance business and a CAGR of 6.4 per cent. in gross written premiums ("GWP") in its Hong Kong general insurance business. 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 30 June 2016, the Group's investment portfolio (excluding investments supporting investment linked contracts, mandatory provident fund schemes ("MPF") and occupational retirement schemes ("ORSO") under which policyholders assume the investment risk) comprised U.S.\$6,731.8 million in investment assets, with over 89.9 per cent. of its assets comprising fixed income securities and less than 0.5 per cent. of the securities rated below investment grade. The Group has strong credit experience, with no credit defaults in its fixed income portfolio since 2009. FWD Life Hong Kong's asset and liability management strategy has enabled it to manage its duration gap within a narrow range, which was 4.2 years as of 30 June 2016, as compared to 3.3 years as of 31 December 2015 and 4.4 years as of 31 December 2014. This has enabled FWD Life Hong Kong to maintain a stable solvency ratio within its targeted range of 200 per cent. to 250 per cent despite volatile conditions in interest rates and equity markets.

### **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. Finally, most members of the senior management team within the Group's operating companies have successfully grown the businesses within the Group, having held various management positions within those businesses prior to the Acquisition.

## **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. In the agency channel, the Group plans to introduce innovative protection products to address the increasing market needs for medical, critical illness and long-term protection products. In its bancassurance and brokerage channels, the Group is introducing simplified health and protection products to improve margins. Finally, the Group will leverage its customer analytic capabilities to develop competitive and high value products for its different customer segments.

### **Expand multi-channel distribution**

While the Group considers its agency distribution network a key competitive strength, its long-term objective is to achieve a balanced distribution between its agency, bancassurance, brokerage and direct channels. In the agency channel, the Group continues to expand its capacity by recruiting a younger generation of agents and by leveraging its comprehensive product lines (across life insurance, general insurance and employee benefits) to help its agents acquire more customers. The Group focuses development efforts on its core agents (those who are consistently productive) and promotes MDRT membership as a benchmark for performance. In bancassurance, the Group seeks to increase the distribution of its health and protection products. The Group continues to leverage its key bank partnerships with, amongst others, CCBA and BoComm while also exploring new partnership opportunities in the market. In the brokerage channel, the Group is implementing a comprehensive sales support platform to enable its brokerage partners to present a strong value proposition to potential customers. In the direct channels, the Group seeks to offer simple, innovative solutions and to create partnerships to bring additional value added benefits to the Group's customers.

### **Create a differentiated brand through “customer-centricity”**

The Group positions itself as the “customer-centric” insurer and will continue to invest in its customer service platform to create an enhanced customer experience, including service (i) at the time the customer wants, (ii) at the place most convenient for the customer and (iii) in the way the customer prefers. The Group has established a 24/7 customer service hotline, has set up seven customer centres in different districts of Hong Kong to provide convenient access for its customers and developed a mobile servicing platform to enable online claims processing as an added convenience for its customers. The Group has trained claim ambassadors to support its agent, bancassurance and brokerage distribution partners at the time of claim payment to make the claims experience as easy as possible for both its customers and its distributors. 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-centricity 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 also aims to maintain its prudent balance sheet and solid credit ratings for FWD Life Hong Kong to help ensure that it is able to access the most competitive terms in its business arrangements.

## THE GROUP'S PRODUCTS

The Group offers a broad range of life insurance, general insurance, employee benefits and financial planning products through its four operating companies in Hong Kong and, in the case of life insurance, its operating company in Macau. The Group's key products are described below:

### Life Insurance Products

The Group's Life Businesses provide a balanced product mix. The following table shows the Life Businesses' product mix on an APE basis for the dates indicated:

	Percentage of total APE			
	For the year ended 31 December 2014	For the year ended 31 December 2015	For the period ended 30 June 2015	For the period ended 30 June 2016
	(per cent.)			
Traditional non-participating life insurance products . . . . .	1.5	1.1	1.5	0.6
Traditional participating life insurance products . . . . .	9.7	28.0	17.4	33.9
Health insurance products . . . . .	15.3	12.4	17.0	13.5
Investment-linked products . . . . .	19.6	10.3	13.5	3.5
Universal life insurance products . . . . .	41.8	47.1	48.5	48.5
Short-term endowment products . . . . .	12.1	1.0	2.1	0.0

The following table shows the VNB margins and growth rates on an APE basis of the Life Businesses' products for the twelve-month period ended 30 June 2016:

	VNB margin for the twelve months ended 30 June 2016	APE growth for the twelve months ended 30 June 2016
	(per cent.)	
Traditional non-participating life insurance products . . . . .	159.1	(12.0)
Traditional participating life insurance products . . . . .	41.7	273.3
Health insurance products . . . . .	82.8	2.5
Investment-linked products . . . . .	30.3	(51.4)
Universal life insurance products . . . . .	30.6	48.4
Short-term endowment products . . . . .	12.5	(89.0)

The Group's higher margin products had solid growth rates in terms of APE for the twelve months ended 30 June 2016 as the Group has focused on improving its product margins.

As part of the Group's strategy to maintain its portfolio at a low risk level, the Group limits the volume of long-term products with guaranteed returns, instead offering predominately non-guaranteed returns through terminal dividends, maturity bonuses and declared rates on account balances that can be adjusted at the Group's discretion. The Group's key life insurance products are described below.

- **Universal Life.** Universal life insurance products allow customers to pay flexible premiums that are accumulated in an account, reduced by cost of insurance and administrative charges, and credited with investment returns. The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge. In keeping with the Group's risk management strategy, the Group seeks to limit the portion of its universal life portfolio that offers guaranteed returns, with the majority of the portfolio crediting investment returns that can be adjusted at the Group's discretion.
- **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 borne by the policyholder.
- **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.
- **Health Insurance.** Health insurance products provide morbidity or sickness benefits and include medical, critical illness and accident and disability coverage. The Group offers health insurance products both as standalone policies and as riders that can be attached to the Group's individual life insurance products.

- **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.

### **General Insurance Products**

The Group provides a range of general insurance products in Hong Kong tailored to meet the needs of individuals and commercial institutions, including health and medical care insurance, motor insurance, property insurance and marine insurance.

The Group places strategic importance on its general insurance business to generate profit and to acquire new customers. Specifically, FWD General Insurance's commercial product offerings such as marine, liability and fire coverage create profit for the Group while its personal insurance products such as travel, motor and home insurance are designed to bring new customers to the Group and to provide cross-selling opportunities for its agents.

### **Employee Benefits**

Through its employee benefits business, the Group offers group life insurance products in Hong Kong underwritten by FWD Life Hong Kong, group medical insurance underwritten by FWD General Insurance, MPF schemes underwritten by FWD Pension Trust and ORSO schemes underwritten by FWD Life Hong Kong.

### **Financial Planning**

The Group's financial planning advisers offer a number of different wealth management products, including life insurance, general insurance and MPF products, mutual funds, portfolio bonds and investment-linked products.

### **DISTRIBUTION**

The Group distributes its products through four distribution channels—agency, bancassurance, brokerage and direct to consumer. The Group believes that strong and balanced production from its distribution channels is important to meet customer needs and to achieve greater diversification in its business. In recent periods, the Group has been successful in exploiting the growth the insurance industry has experienced in Hong Kong and Macau in the bancassurance and brokerage channels, while continuing to grow its agency channel. The direct to customer business is a relatively new channel for the Group as well as for other competitors, but the Group believes that this will be an important channel going forward.

### **Agency**

The Group's agency distribution channel ranked sixth in market share by APE as of 30 June 2016 (according to OCI statistics) and is focused primarily on health, protection and long-term savings products. The Group places a strong emphasis on its agency training program and has developed an activity-based agency model to enhance the professionalism of its agents. The Group believes that its focus on agent quality is evidenced by the ratio of MDRT members among its Life Businesses' sales force, which was 8.6 per cent. at 31 December 2015.

The Group has a high retention rate among its agency sales force. As of 30 June 2016, FWD Life Hong Kong's agents have an average service period with the Group of 5.3 years, and approximately 32 per cent. of agents had more than five years of service. Going forward, the Group plans to continue to grow its agency headcount, by focusing on recruitment of both early retirees with an existing skill set and significant experience, as well as recent college graduates, and continuing to emphasise MDRT membership. In addition, the Group has defined certain target customer segments (for example, high net worth, pre/post-retirement and "**E generation**") and has established task forces to provide sales support and recruitment initiatives to equip its agents to excel in these key segments.

The following table shows certain operating data for the Group's agency sales force as of and for the dates indicated:

	As of and for the year ended 31 December 2014	As of and for the year ended 31 December 2015	As of and for the period ended 30 June 2015	As of and for the period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Number of MDRT agents . . . . .	169	187	16	64
Total number of sales agents . . . . .	1,828	2,174	1,940	2,242
Active agent ratio (per cent.) <sup>(1)</sup> . . . . .	48.8%	55.1%	50.3%	51.1%
Annual premium equivalent . . . . .	93.7	120.7	41.3	59.3
Value of new business . . . . .	56.6	61.8	22.9	36.9

Note:

(1) Calculated by dividing the number of agents with sales of the Group's products during a period by the total number of agents.

During the three years ended 30 June 2016, APE and VNB from the agency channel grew at CAGRs of 18.8 per cent. and 32.1 per cent., respectively.

### Bancassurance

Under ING ownership, the Hong Kong life insurance business entered into a number of strategic bancassurance relationships that remain in place, first with BoComm in 2002, with ABN AMRO Bank N.V. (later acquired by The Royal Bank of Scotland and ultimately by ANZ) in 2004 and with CCBA in 2007. FWD Life Hong Kong recently collaborated with BoComm on a number of product bundling opportunities and on a co-branded credit card. The Group currently provides dedicated support services to ANZ and shares closely aligned business strategies; however, this is expected to cease in 2017 with the completion of the sale of ANZ's retail banking business. FWD Life Hong Kong's partnership with CCBA produced an APE increase of approximately nine times from 2008 to 2011. In recognition of the successful development of bank partnerships with CCBA and BoComm, FWD Life Hong Kong entered into a further 10-year and 5-year strategic collaboration in May 2011 and August 2014, respectively. Collectively, the Group's bancassurance partners provide the Group access to 110 branches throughout Hong Kong and Macau.

The Group is undertaking a number of initiatives to strengthen its bancassurance channel, including deepening customer penetration, increasing bank branch productivity and strengthening existing partnerships while exploring new cooperation opportunities. The Group plans to leverage the private banking arms of its existing bancassurance partners in Hong Kong in order to expand sales to high net worth individuals. The Group is also increasing its offerings through retail channels by bundling simple insurance products with its partners' retail banking offerings. The Group's bancassurance distribution channel ranked tenth in market share by APE as of 30 June 2016 (according to OCI statistics).

The following table shows certain operating data for the Group's bancassurance channel as of and for the dates indicated:

	As of and for the year ended 31 December 2014	As of and for the year ended 31 December 2015	As of and for the period ended 30 June 2015	As of and for the period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Number of active bank branches (average of period) . . . . .	84	78	82	75
Annual premium equivalent . . . . .	77.9	59.9	31.6	29.4
Value of new business . . . . .	15.9	24.6	12.5	12.5

APE from the bancassurance channel has declined throughout the industry due to weakening demand for ILAS products following the implementation by the Hong Kong Monetary Authority, the SFC, the Insurance Authority and the HKFI of more stringent regulations of these products. See "*Risk Factors—Risks Relating to the Group's Industry—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 introducing new products, including simplified health and protection products, with the aim of regaining sales momentum and increasing VNB margin in the bancassurance channel. The Group has experienced success in increasing its VNB in the bancassurance channel, and during the three years ended 30 June 2016, VNB from the bancassurance channel grew at a CAGR of 28.4 per cent.

## Brokerage

As of 30 June 2016, the Group had more than 250 brokerage partners. The Group's top five brokerage partners accounted for approximately 75 per cent. of the Group's APE through the brokerage channel for the year ended 31 December 2015. The Group's brokerage distribution channel ranked seventh in market share by APE as of 30 June 2016 (according to OCI statistics).

The Group considers its brokerage channel to be a key channel for growth going forward and has undertaken a number of initiatives to support its brokerage partners, including the establishment of dedicated relationship management teams that hold regular meetings with management of key brokerage firms. The Group is also engaging more key brokers through strategic partnerships, including dedicated sales and underwriting support, and customised products to help the brokers succeed in their target markets.

The Group operates separate brokerage networks for its life and general insurance businesses. The following table shows certain operating data for the Group's brokerage channel for its Life Businesses as of and for the dates indicated:

	As of and for the year ended 31 December 2014	As of and for the year ended 31 December 2015	As of and for the period ended 30 June 2015	As of and for the period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Number of brokers . . . . .	221	246	233	255
Annual premium equivalent . . . . .	29.2	63.6	14.6	30.9
Value of new business . . . . .	7.3	13.8	3.7	6.8

The following table shows certain operating data for the Group's brokerage channel for FWD General Insurance as of and for the dates indicated:

	As of and for the year ended 31 December 2014	As of and for the year ended 31 December 2015	As of and for the period ended 30 June 2015	As of and for the period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Number of brokers . . . . .	246	251	256	258
Gross written premiums <sup>(1)</sup> . . . . .	27.9	27.8	16.0	15.2

Note:

(1) Calculated based on guidelines promulgated by the OCI.

The brokerage channel has experienced rapid growth during the three year period ended 30 June 2016, with an APE CAGR of 46.6 per cent. and a VNB CAGR of 55.7 per cent.

## Direct to Customer (iFWD)

The Group started the iFWD direct to customer channel in 2015 and it quickly became the top direct to customer channel in Hong Kong with a 32 per cent. market share as at 30 June 2016. Traffic to the iFWD website exceeded 760,000 visits during the first six months of 2016. The Group offers flexible savings life insurance products, travel insurance and protection for cellular phones, among other products, and plans to further expand its product offerings to include motor insurance, simple investment linked and health insurance products through the channel. While the channel is still small relative to the other distribution channels, the Group considers that the direct channel will be a very important channel for growth going forward.

The following table shows certain operating data for the Group's iFWD channel as of and for the dates indicated:

	As of and for the year ended 31 December 2014	As of and for the year ended 31 December 2015	As of and for the period ended 30 June 2015	As of and for the period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Annual premium equivalent . . . . .	—	5.1	—	7.9
Value of new business . . . . .	—	1.0	—	1.1

## THE GROUP'S OPERATING COMPANIES

The Issuer is the holding company of the Group's Life Businesses and the general insurance, employee benefits and financial planning businesses in Hong Kong and Macau. The Group operates these businesses through five separate operating companies, as described below.



### FWD Life Hong Kong

The Group operates its life insurance business in Hong Kong through FWD Life Hong Kong. For the period ended 30 June 2016, FWD Life Hong Kong accounted for 34.5 per cent. of the aggregate profit after income tax expenses of the Group's five main operating subsidiaries before intercompany eliminations.

The following table shows certain financial and operating data for FWD Life Hong Kong for the periods indicated:

	Year ended 31 December 2014	Year ended 31 December 2015	Period ended 30 June 2015	Period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Annual premium equivalent	195.8	241.6	84.6	123.9
Gross written premiums <sup>(1)</sup>	1,076.5	1,319.8	615.6	688.8
Value of new business	76.8	97.6	37.8	55.3
VNB margin (per cent.)	39.2%	40.4%	44.7%	44.6%
Profit for the period <sup>(2)</sup>	62.2	23.9	8.3	1.8

Notes:

(1) Calculated based on guidelines promulgated by the OCI.

(2) Before intercompany eliminations.

### FWD General Insurance

The Group operates its general insurance business through FWD General Insurance. For the period ended 30 June 2016, FWD General Insurance accounted for 39.7 per cent. of the aggregate profit after income tax expenses of the Group's five main operating subsidiaries before intercompany eliminations.

The following table shows certain financial and operating data for FWD General Insurance for the periods indicated:

	Year ended 31 December 2014	Year ended 31 December 2015	Period ended 30 June 2015	Period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Gross written premiums <sup>(1)</sup>	61.4	64.1	37.1	36.1
Combined ratio <sup>(2)</sup>	95.3%	102.6%	113.3%	93.4%
Profit for the period <sup>(3)</sup>	5.3	1.3	(1.1)	2.1

Notes:

(1) Calculated based on guidelines promulgated by the OCI.

(2) Calculated as the sum of incurred claims plus expenses divided by earned premiums, where expenses include commissions, underwriting expenses and administrative expenses, with all items determined using the regulatory reporting basis.

(3) Before intercompany eliminations.

### FWD Life Macau

The Group operates its life insurance business in Macau through FWD Life Macau.

The following table shows certain financial and operating data for FWD Life Macau for the periods indicated:

	Year ended 31 December 2014	Year ended 31 December 2015	Period ended 30 June 2015	Period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Annual premium equivalent <sup>(1)</sup>	5.0	7.7	2.9	3.6
Gross written premiums <sup>(1)</sup>	33.8	41.8	18.5	22.5
Value of new business	3.0	3.6	1.3	2.0
VNB margin (per cent.)	60.0%	46.8%	44.8%	55.6%
Profit/(loss) for the period <sup>(2)</sup>	(3.8)	1.9	1.1	0.7

Notes:

(1) Calculated based on guidelines promulgated by the AMCM.

(2) Before intercompany eliminations.

### FWD Pension Trust

The Group operates its pensions and employee benefits business through FWD Pension Trust, a registered trust company in Hong Kong that primarily provides trustee services to pension schemes. FWD Pension Trust directly

underwrites MPF schemes, while the ORSO schemes it manages are underwritten by FWD Life Hong Kong. For the period ended 30 June 2016, FWD Pension Trust accounted for 16.3 per cent. of the aggregate profit after income tax expenses of the Group's five main operating subsidiaries before intercompany eliminations.

The following table shows certain financial and operating data for FWD Pension Trust for the periods indicated:

	Year ended 31 December 2014	Year ended 31 December 2015	Period ended 30 June 2015	Period ended 30 June 2016
	(U.S.\$ millions, except as indicated)			
Assets under management . . . . .	403.3	424.8	445.3	435.0
Profit for the period <sup>(1)</sup> . . . . .	2.0	1.8	1.0	0.8

Note:

(1) Before intercompany eliminations.

## FWD Financial Planning

The Group operates its financial planning business through FWD Financial Planning, an independent financial advisory business offering professional advice to high net worth individuals. FWD Financial Planning had a loss of U.S.\$0.1 million and U.S.\$0.2 million for the year ended 31 December 2015 and period ended 30 June 2016, respectively, before intercompany eliminations.

## 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.

## 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 Management and Actuarial Committee ("RMAC"). 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 RMAC 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 and private 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 30 June 2016, the Group's investment portfolio (excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk) comprised U.S.\$6,731.8 million in investment assets, with over 89.9 per cent. of its assets comprising fixed income securities. Within the Group's fixed income portfolio, less than 0.5 per cent. of the securities were rated below investment grade. For FY2015 and HY2016, the Group had investment income of U.S.\$182.5 million and U.S.\$103.3 million, respectively.

### Investment Management and Objectives

The RMAC 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, RMAC has formulated four key investment objectives: (i) maintain adequate solvency ratios and liquidity levels; (ii) maintain stable and consistent earnings on an IFRS basis; (iii) create long-term value without exceeding the Group's risk capital limits; and (iv) ensure that suitable earnings protections are in place in the event that the HK dollar and U.S. dollar are un-pegged.

The RMAC 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, RMAC reviews and approves the Group's investment strategy, asset allocation, investment mandates and guidelines and advises the investment management unit. In doing so, the RMAC employs strategic asset allocation ("SAA") and tactical asset allocation ("TAA") frameworks.

The SAA framework serves as an indicative benchmark for asset allocation, which RMAC believes will best enable the Group to achieve its four key investment objectives. The SAA prescribes a high allocation to corporate bonds in order to optimise portfolio returns with stable income; a moderate allocation to longer maturity government bonds in order to mitigate interest rate risks associated with long term insurance liabilities and maintain liquidity even in stressed scenarios; and a low 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. RMAC 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, there has been no material change to the investment mandate or guidelines followed by the businesses within the Group since 31 December 2010. The Group recently appointed PineBridge as the investment manager for its fixed income portfolio and manages its equity investments in-house.

### 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 Life Hong Kong's duration gap has increased from approximately 3.3 years as of 31 December 2015 to approximately 4.2 years as of 30 June 2016, due to the decline of interest rates throughout the first half of 2016. To manage the duration gap, FWD Life Hong Kong executed an inforce reinsurance treaty in the first quarter of 2016, lengthened the asset duration in the second quarter of 2016, and is in the process of revamping the most interest rate-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 corporate bonds, which represented 72.8 per cent. of the Group's investment portfolio (excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk) as of 30 June 2016, followed by government bonds and then other asset classes. As of 30 June 2016, less than 0.5 per cent. of the Group's fixed income portfolio was rated below investment grade. The following table sets forth the Group's total investment portfolio by asset class as of the dates indicated:

	As of 31 December 2014		As of 31 December 2015		As of 30 June 2015		As of 30 June 2016	
	(U.S.\$ millions)	(% of total)	(U.S.\$ millions)	(% of total)	(U.S.\$ millions)	(% of total)	(U.S.\$ millions)	(% of total)
Corporate bonds . . . . .	3,428.1	66.6%	4,192.3	71.6%	3,841.9	71.4%	4,900.3	72.8%
Government bonds . . . . .	1,309.7	25.4%	1,027.7	17.6%	898.4	16.7%	1,148.0	17.1%
Public equities and mutual funds . . . . .	197.2	3.8%	363.3	6.2%	381.2	7.1%	387.5	5.7%
Private equities . . . . .	75.0	1.5%	127.1	2.2%	119.8	2.2%	152.3	2.3%
Policy loans and other loans . . .	78.2	1.5%	79.5	1.4%	79.3	1.5%	81.4	1.2%
Other assets <sup>(1)</sup> . . . . .	59.2	1.2%	60.7	1.0%	60.7	1.1%	62.3	0.9%
Total investments <sup>(2)</sup> . . . . .	<u>5,147.4</u>	<u>100.0%</u>	<u>5,850.6</u>	<u>100.0%</u>	<u>5,381.3</u>	<u>100.0%</u>	<u>6,731.8</u>	<u>100.0%</u>

*Notes:*

(1) Includes U.S.\$1.5 million of asset and mortgage backed securities at 31 December 2014 and 30 June 2015. These securities were sold prior to 31 December 2015.

(2) Excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk.

### **Fixed Income Investments**

As of 30 June 2016, 89.9 per cent. of the Group's investment portfolio (excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk) was composed of fixed income investments, including asset- and mortgage-backed securities.

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 2014		As of 31 December 2015		As of 30 June 2015		As of 30 June 2016	
	(U.S.\$ millions)	(% of total)	(U.S.\$ millions)	(% of total)	(U.S.\$ millions)	(% of total)	(U.S.\$ millions)	(% of total)
AAA	187.8	4.0%	1,012.4	19.4%	163.0	3.4%	1,080.0	17.9%
AA	2,053.5	43.3%	917.3	17.6%	1,617.9	34.1%	715.9	11.8%
A	1,865.9	39.3%	2,118.8	40.5%	2,026.5	42.8%	2,799.2	46.3%
BBB	600.5	12.7%	1,147.0	22.0%	907.4	19.1%	1,428.7	23.6%
Below BBB	31.6	0.7%	24.5	0.5%	27.0	0.6%	24.5	0.4%
Total fixed income investments	<u>4,739.3</u>	<u>100.0%</u>	<u>5,220.0</u>	<u>100.0%</u>	<u>4,741.8</u>	<u>100.0%</u>	<u>6,048.3</u>	<u>100.0%</u>

As of 30 June 2016, the Group's fixed income investments were concentrated in the financial sector, which represented over 32 per cent. of the Group's total fixed income investment portfolio, followed by government, energy, utilities and other sectors.

### **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 RMAC, 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 RMAC 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 licensed 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 in-force policies, the Group is able to adjust policyholder dividends and crediting rates applicable to policyholder account balances, 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. In particular, FWD General Insurance is exposed to a higher level of volatility through its commercial lines business; therefore, with the assistance of reinsurers and international reinsurance brokers, the Group reviews FWD General Insurance's reinsurance arrangement annually to optimise the reinsurance protection for FWD General Insurance's business.

### *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 RMAC meetings, and appropriate foreign exchange hedges are put into place in order to ensure local statutory solvency is maintained at an acceptable level.

The Group issues policies and invests in assets denominated in U.S. dollars, HK dollars and Renminbi, and uses forward currency contracts to hedge the currency mismatch between its liabilities to policyholders and its assets. The following table sets forth the currency mismatch both before and after currency hedges (a positive number indicates more assets than liabilities in the currency, and a negative number indicates more liabilities than assets in the currency):

	<u>As of</u> <u>31 December</u> <u>2014</u>	<u>As of</u> <u>31 December</u> <u>2015</u>	<u>As of</u> <u>30 June</u> <u>2015</u>	<u>As of</u> <u>30 June</u> <u>2016</u>
		(U.S.\$ millions)		
HK dollar mismatch before hedging . . . . .	(1,656)	(1,866)	(1,721)	(2,261)
HK dollar mismatch after hedging . . . . .	(142)	9 <sup>(1)</sup>	214	(26)
RMB mismatch before hedging . . . . .	5	40	32	33
RMB mismatch after hedging . . . . .	35	40	32	33

Note:

(1) There is generally a one-month lag in the execution of foreign exchange hedges because month-end positions are only available in the subsequent month.

## 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 and investment policy and contract obligations. The amount of the Group's consolidated insurance and investment contract liabilities as of 30 June 2016 was U.S.\$8,297.0 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 Group maintains assets in excess of liabilities to meet the solvency ratio requirements under Insurance Companies (Margin of Solvency) Regulations in Hong Kong and Macau Insurance Companies Ordinance (Margin of Solvency) in Macau and to support future growth. See "*—Supervision and Regulation*". FWD Life Hong Kong targets a solvency ratio between 200 per cent. and 250 per cent., well above the Hong Kong regulatory requirement of 150 per cent., while FWD General Insurance targets a solvency ratio between 300 per cent. and 500 per cent., at or above the regulatory requirement of 300 per cent., and FWD Life Macau targets a solvency ratio between 100 per cent. and 140 per cent., at or above the regulatory requirement of 100 per cent.

The following table sets forth the solvency ratio for each of the Life Businesses and FWD General Insurance for the periods indicated:

	As of 31 December 2014	As of 31 December 2015	As of 30 June 2015	As of 30 June 2016
(U.S.\$ million, except as indicated)				
<b>FWD Life Hong Kong:</b>				
Local available capital . . . . .	454.0	489.7	502.3	574.7
Minimum local required capital . . . . .	200.9	226.4	209.4	240.6
Actual local solvency ratio (per cent.) <sup>(1)</sup> . . . . .	226%	216%	240%	239%
<b>FWD Life Macau:</b>				
Local available capital . . . . .	13.8	12.0	12.9	13.6
Minimum local required capital . . . . .	9.4	10.3	9.8	11.2
Actual local solvency ratio (per cent.) <sup>(1)(2)</sup> . . . . .	146%	117%	132%	121%
<b>FWD General Insurance:</b>				
Local available capital . . . . .	45.9	42.4	43.9	43.2
Minimum local required capital . . . . .	7.9	6.4	7.2	6.2
Actual local solvency ratio (per cent.) <sup>(1)</sup> . . . . .	581%	664%	610%	699%

Notes:

- (1) Calculated as the ratio of local available capital to minimum local required capital.
- (2) Reflects a capital injection of U.S.\$5 million, which was subsequently approved by the Macau Chief Executive on 24 October 2016.

### Sensitivity analysis

The Group regularly performs sensitivity analyses to measure the potential effect of certain market developments on its local solvency ratio. The following table sets forth the estimated local solvency ratio of FWD Life Hong Kong and FWD General Insurance under four hypothetical scenarios:

	Solvency Ratio <sup>(1)</sup>	
	FWD Life Hong Kong	FWD General Insurance
Actual local solvency ratio as of 30 June 2016 . . . . .	239%	699%
25 basis point increase in HK dollar and U.S. dollar market interest rates . . . . .	259% <sup>(2)</sup>	686% <sup>(2)</sup>
25 basis point decrease in HK dollar and U.S. dollar market interest rates . . . . .	203% <sup>(2)</sup>	711% <sup>(2)</sup>
10 per cent. increase in equity markets . . . . .	252% <sup>(2)</sup>	703% <sup>(2)</sup>
10 per cent. decrease in equity markets . . . . .	226% <sup>(2)</sup>	694% <sup>(2)</sup>

Notes:

- (1) Calculated as the ratio of local available capital to minimum local required capital.
- (2) The Group's sensitivity analyses do not take into consideration any mitigating management actions.

## SUPERVISION AND REGULATION

The primary source of regulation of the insurance industry in Hong Kong is the HKICO. In addition to enumerating the regulatory requirements and reporting obligations of insurers and insurance intermediaries in Hong Kong, the HKICO charges the OCI with regulatory authority for the enforcement of its provisions. As a consequence, the Group's Hong Kong operations are subject to oversight by the OCI as well as to the specific requirements of the HKICO.

Pursuant to Section 4 of the HKICO, the Commissioner of Insurance, the head of the OCI, is appointed as the Insurance Authority for administering the HKICO. Under the HKICO, 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. In pursuit of these goals, the Insurance Authority has the following major duties and powers: (i) the authorisation of insurers to carry on insurance business in Hong Kong; (ii) the regulation of insurers' financial condition, primarily through the examination of annual audited financial statements and business returns submitted by Hong Kong insurers; and (iii) the development of legislation and guidelines on insurance supervision.

The Insurance Authority is empowered by the HKICO to take actions if in its judgment a controller or director of an authorised insurer is not fit and proper for that role. Fit and proper standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the Insurance Authority; the clarity of a group's legal, managerial and

operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers are subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgment debt under a court order or are the subject of any criminal convictions or are in breach of any statutory or regulatory requirements; the soundness of a group's corporate governance; the soundness of a group's risk management framework; the receipt of information from a holding company's insurance subsidiaries which are regulated by the Insurance Authority to ensure that they are managed in compliance with applicable laws, rules and regulation; and a holding company's role in overseeing and managing the operations of its insurance subsidiaries that are regulated by the Insurance Authority.

Aside from the HKICO, the insurance industry in Hong Kong currently has a high degree of industry regulation, which complements the regulatory framework established by the HKICO. The Hong Kong Confederation of Insurance Brokers (the "HKCIB") and the HKFI are self-regulatory bodies of which the Group is an active member. These and other industry bodies perform certain further regulatory and licensing functions in Hong Kong.

In addition to oversight of the Group's insurance operations in Hong Kong by the OCI and industry bodies, the Group's operations are also subject to supervision by other relevant government regulators, including the Securities and Futures Commission and Mandatory Provident Fund Schemes Authority in Hong Kong, the AMCM and the Bermuda Monetary Authority. The various regulators overseeing the Group actively monitor its local solvency ratios, and all of the Group companies submit annual filings to their respective regulators of their solvency ratios based on their annual audited accounts. The Group is in compliance with the solvency ratio and capital adequacy requirements applied by its regulators.

### **Regulatory orders specific to the Group**

In connection with its approval of the Acquisition, the Insurance Authority imposed certain additional regulatory requirements or restrictions on the Group. As of the date of this Offering Circular, the requirements and restrictions summarised below may be considered material to the Group:

The Insurance Authority has issued Section 35 Orders to each of FWD Life Hong Kong and FWD General Insurance requiring, among other requirements, that each of FWD Life Hong Kong and FWD General Insurance:

- ensure that all insurance business and all transactions with any "**specified person**" are on normal commercial terms;
- not place any deposit with or transfer assets (except for normal insurance transactions) or provide financial assistance to any "**specified person**" without first obtaining written consent from the Insurance Authority;
- not declare or pay any dividend without first obtaining written consent from the Insurance Authority; and
- inform the Insurance Authority as soon as practicable of any circumstances that may put the interest of policyholders or potential policyholders at risk.

For the purpose of the Section 35 Orders, "**specified person**" includes but is not limited to an insurer's directors, controlling persons, shareholders and associates or group companies.

In addition, further undertakings have been given to the Insurance Authority that, among other requirements:

- require FWD Life Hong Kong to maintain at all times a solvency ratio target of 150 per cent. to 200 per cent.;
- require FWD General Insurance to maintain at all times a solvency ratio target of 300 per cent. to 500 per cent.;
- require 60 days' (or such shorter period as the Insurance Authority may allow) prior written notice be given to the Insurance Authority of an intention to make any further borrowings; and
- restrict the ability of the Issuer and the intermediate holding companies of FWD Life Hong Kong and FWD General Insurance to declare or pay dividends without first obtaining written consent from the Insurance Authority.

### **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.



## COMPETITION

FWD Life Hong Kong is ranked ninth in market share by APE out of 61 life insurers authorised by the OCI as of 30 June 2016 (according to OCI statistics). FWD Life Macau is ranked fifth in market share by APE out of 11 life insurers authorised by the AMCM as of 30 June 2016 (according to AMCM statistics).

Although the Hong Kong insurance market is a relatively liberalised market with few barriers to entry, the market is concentrated. According to statistics released by OCI, as of 30 June 2016, approximately 79 per cent. of market share by APE was held by the top five life insurance companies. The Group's competitors can broadly be categorised as follows:

- regional and multinational insurance companies with an individual market share by APE in excess of 5.0 per cent. (including the China Life Insurance (Group) Company, Prudential Hong Kong Limited and AIA Group Limited);
- banks and other financial institutions that directly own an insurance company subsidiary (including The Hongkong and Shanghai Banking Corporation, Bank of China (Hong Kong) Limited, Hang Seng Bank Limited and The Bank of East Asia, Limited);
- regional and multinational insurance companies with an individual market share by APE in excess of 2.0 per cent. but less than 5.0 per cent. (Manulife (International) Limited and AXA Hong Kong); and
- regional and multinational insurance companies with an individual market share by APE of less than 2.0 per cent. (including Hong Kong Life Insurance Limited, Sun Life Hong Kong Limited, MassMutual Asia Ltd and FTLife Insurance Company Limited).

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 enable it to maintain leading positions in Hong Kong and Macau. The Group also competes for sales representatives and independent sales agents with other life insurance companies operating in Hong Kong and Macau.

## 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.

## CREDIT RATINGS

FWD Life Hong Kong has insurer financial strength ratings of "A" with a stable outlook from Fitch and "A3" with a stable outlook from Moody's.

FWD General Insurance has an insurer financial strength rating of "A" with a stable outlook from Fitch.

The Issuer's senior debt is rated "BBB" with a stable outlook from Fitch and "Baa2" with a negative outlook from Moody's.

## EMPLOYEES

As of 30 June 2016, the Group had 631 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 . . . . .	78	Chairman and Director
Kazuyuki Takahashi . . . . .	58	Vice Chairman and Director
Damis ("Dennis") Jacobus Ziengs . . . . .	67	Vice Chairman and Director
Peter A. Allen . . . . .	61	Director
John Baird . . . . .	47	Director
Martina Chung . . . . .	58	Director
David Cole . . . . .	55	Director
Sir David Ford . . . . .	81	Director
Srinivas Bangalore Gangaiiah ("BG Srinivas") . . . . .	55	Alternate Director
Dirk ("Dick") Sluimers . . . . .	63	Director
Huyhn Thanh Phong . . . . .	50	Director and Chief Executive Officer
Professor Frederick Ma Si-Hang . . . . .	64	Independent Non-Executive Director

### CHAIRMAN

**The Honourable Ronald Arculli**, GBM, CVO, GBS, OBE, JP, aged 78, is the Chairman and a Director of the Issuer. He is a Senior Partner of King & Wood Mallesons in Hong Kong. He chairs the Honorary Advisory Committee of SVHK Foundation Limited, Common Purpose Charitable Foundation Limited, Hong Kong and Light Be Foundation Limited. Mr. Arculli is also a Non-Executive Director of Asia Art Archive Limited and a Trustee, Vice Chair of the Trustees and Director of IFRS Foundation. He is a Board Member and Vice-Chairman of the Board of The West Kowloon Cultural District Authority and chairs its Executive Committee and Development Committee. He is also an Independent Non-Executive Director of Hang Lung Properties Limited and a Non-Executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited, Tsim Sha Tsui Properties Limited, HK Electric Investments Manager Limited (as trustee-manager of HK Electric Investments) and HK Electric Investments Limited (all of which are listed companies in Hong Kong, apart from HK Electric Investments Manager Limited). Mr. Arculli has a long and distinguished record of public service. He was a Non-Official Member (from November 2005 to June 2012) and later appointed as Convenor of the Non-Official Members (from December 2011 to June 2012) of the Executive Council of the HKSAR Government. He was a former member of the Legislative Council of Hong Kong (1988 – 2000), the former Chairman of Hong Kong Exchanges and Clearing Limited (from 2006 to 2012) and of The Hong Kong Jockey Club (from 2002 to 2006). He is also a former Chairman (from 2010 to 2012) and Board Member (from 2008 to 2012) of The World Federation of Exchanges. In 2000, he succeeded HRH, the Duke of Edinburgh, as Chairman of The International Award Association, a youth development programme present in some 100 countries - a position he held until November 2007. He has served on many commissions and boards, including the Board of Governors of the London Business School. In 2005, the City University of Hong Kong conferred on Mr. Arculli an Honorary Degree of Doctor of Social Sciences. In 2010, the Hong Kong University of Science and Technology conferred on him an Honorary Degree of Doctor of Laws. Mr. Arculli was called to the English and Hong Kong Bars and is currently a solicitor in England and Wales and in Hong Kong.

### VICE CHAIRMEN

**Kazuyuki Takahashi**, aged 58, is a Vice Chairman and a Director of the Issuer. Takahashi-san has a wealth of experience in the Japanese insurance sector in Japan, with more than 30 years at MetLife Alico, Alico Japan and AIG. Takahashi-san most recently held the position of President at MetLife Alico, where he led the launch of the MetLife Alico operation following the acquisition of Alico Japan from AIG in November 2010, with successful local incorporation in 2012, and he was instrumental in improving the company's post-acquisition performance. Prior to MetLife's acquisition, Takahashi-san was the Legal Representative and President for Alico Japan, having been promoted to the role in 2006 from his previous position as Chief Operating Officer. As President, he was responsible for managing the business, including leading a team of about 6,000 staff and 5,000 agents (excluding more than 10,000 independent agents). His achievements included doubling new business annualised premiums from JPY107 billion (U.S.\$1 billion) to JPY 199 billion (U.S.\$2 billion) between 2009 and 2012, increasing premium income to JPY1.5 trillion (U.S.\$15 billion) in 2012, and developing the business portfolio to directly improve profitability and growth. Takahashi-san held several executive and managerial roles with Alico Japan, including Senior Vice President, Independent Agent Distribution and Direct Marketing, a position he held from

2004 to 2006. Between 2002 and 2003, Takahashi-san was Vice President, Direct Marketing, and he held a lead role at the Accident & Health Profit Center in AIG's New York office between 1998 and 2000. Takahashi-san holds a Bachelor of Economics from Chuo University in Tokyo.

**Dennis Ziengs**, aged 67, is a Vice Chairman and a Director of the Issuer. He has been a Senior Advisor with Swiss Re since August 2012 and mainly advises Swiss Re on Asia related activities. Mr. Ziengs has been active in the financial services industry since 1973, and was most recently with Ageas SA/NV. He joined Ageas (then "Fortis") in March 2002 as CEO for Asia. In August 2011, he stepped down as Regional CEO to take on the mantle of Executive Advisor to Ageas until his retirement in July 2012. Prior to joining Ageas, Mr. Ziengs was a Divisional Board Member at Deutsche Bank in Frankfurt, Germany. Before that, he held senior and executive management positions in New York and Hong Kong with Rabobank International, ABN AMRO and Continental Illinois National Bank in a variety of countries in Asia, North America, South America and Europe. From 2002 to 2012, in addition to being a member of the Management Committee of Ageas, Mr. Ziengs held a number of directorships and board committee memberships in various countries across Asia. He was Non-Executive Director for Ageas Insurance Company (Asia) Limited and Ageas Asia Holdings Limited, both based in Hong Kong. He also held non-executive directorships with Taiping Life Insurance Company, IDBI Federal Life Insurance Company Limited and Muang Thai Life Assurance Company Limited, the operating companies associated with Ageas in China, India, and Thailand, respectively. In Malaysia, Mr. Ziengs was the Vice Chairman of the Board for Etiqa Insurance Berhad, Etiqa Life International (L) Ltd., and Etiqa Takaful Berhad. He was also a Board Director of Mayban Ageas Holdings Berhad and Mayban Investment Management Sdn Berhad. From 2004 to 2008, he was Non-Executive Director of ICBC (Asia), a SEHK listed bank, majority controlled by the ICBC Group from Beijing, PRC. Mr. Ziengs, a Dutch citizen, graduated from Nyenrode Business School in the Netherlands (1969); he later earned a Bachelor's degree (1970) and Master's degree (1971) in Business Administration from the University of Oregon, USA.

## DIRECTORS

**Peter A. Allen**, aged 61, is a Director of the Issuer. He joined the Pacific Century Group in 1997 and is an Executive Director and Chief Financial Officer of the Pacific Century Group, Group Managing Director of Pacific Century Regional Developments Limited, Non-Executive Director of HKT Limited & HKT Management Limited and Senior Advisor to PCCW Limited. Mr. Allen served as a Director of Pacific Century Insurance Holdings Limited from 1997 until 2007, when it was sold to Fortis Insurance International N.V., and was an Executive Director of PCCW Limited from 1999 to 2011, when he was appointed as a Non-Executive Director of HKT Limited and HKT Management Limited upon listing. From 2003 to 2005, Mr. Allen served as President and CEO of Jaleco Limited in Japan. Prior to joining the Pacific Century Group, Mr. Allen worked for KPMG from 1976 to 1980, before accepting an appointment with Occidental International Oil Incorporated in 1980. In 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, he moved to Singapore as Regional Financial Director of the Vestey Group. In 1992, he became Group Operations Controller for Boustead Singapore Limited, and in 1995 took on the role of Director and Chief Operating Officer of Morgan Grenfell Investment Management (Asia) Limited. Mr. Allen was educated in England and graduated from the University of Sussex with a degree in economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow Member of CPA Australia and a Fellow of the Institute of Singapore Chartered Accountants.

**John Baird**, aged 47, is a Director of the Issuer. He is a Non-Executive Director of PineBridge Investments, a New York-based global asset manager, and a member of the International Advisory Board of Barrick Gold Corporation. From 2011 to 2015, Mr. Baird served as Canada's Minister of Foreign Affairs. Prior to this, he held the roles of Minister of the Environment; Minister of Transport, Infrastructure and Communities; and President of the Treasury Board. He was elected as a federal member of the Canadian Parliament in 2006 and before that was a member of Ontario's Provincial Parliament, a position he took up in 1995, holding a number of ministerial roles, including Energy Minister as well as Minister for Community and Social Services. He graduated from Queen's University at Kingston with a Bachelor of Arts degree.

**Martina Chung**, aged 58, is a Director of the Issuer. She was Executive Vice President, Business Development of the Pacific Century Group in Hong Kong. Ms Chung joined Pacific Century Group in October 2011 and is responsible for business development and strategies. Ms Chung has been in the Asian life insurance industry since 1985. Prior to joining the Pacific Century Group, she spent 21 years with American International Assurance Company Limited ("AIA"). At AIA, she held a number of key management positions, including Head of Group Corporate Planning, executive oversight for Finance & Actuarial, and Group Chief Actuary. She was also a member of the AIA Executive Committee. Ms Chung is a Fellow of both the Society of Actuaries (USA) and the Canadian Institute of Actuaries. She graduated from the University of Toronto with a Bachelor of Arts degree in 1980.

**David Cole**, aged 55, is a Director of the Issuer. He is the Group Chief Financial Officer for Swiss Reinsurance, Ltd and was appointed to the Swiss Re Group Executive Committee in March 2011. Mr Cole joined Swiss Re in November 2010. Prior to this, he was with ABN AMRO Holding, where he served as both Chief Financial Officer and Chief Risk Officer from 2008 to 2010, and was a member of the Board of Managing Directors. From January 2006 to 2009, he was Head of Group Risk Management for ABN AMRO Bank. Between 2001 and January 2006, he held COO and CFO positions with ABN AMRO's Wholesale Clients (WCS) business unit. Between 1984 and 2001, Mr Cole held various positions in risk management and client relationship management in the Netherlands, the United States and Brazil. He joined ABN AMRO Amsterdam in 1984. Mr Cole was elected as Chairman of the CRO Forum in 2012. Mr Cole holds both Dutch and American citizenship. He holds a Bachelor of Business Administration degree from the University of Georgia, USA, and an International Business Diploma from Nijenrode University in the Netherlands.

**Sir David Ford**, KBE, LVO, aged 81, is a Director of the Issuer. He spent his early career as an Army Officer, the last five years of which were with the Commando Brigade. During this time, he saw active service in Borneo and Aden. In 1972, he left the Army to join the Hong Kong Government and subsequently held a number of senior posts. He was appointed as Chief Secretary and Deputy Governor in 1987. In this capacity, he was Head of the Civil Service and served as Governor on many occasions. He was also responsible for the coordination and delivery of all Government capital projects. Sir David was appointed a Non-Executive Director of PCCW Limited in June 2002 and is a Director of certain PCCW Limited subsidiaries.

**BG Srinivas**, aged 55, is an Alternate Director to Sir David Ford. He is an Executive Director and the Group Managing Director of PCCW Limited. He is a member of PCCW Limited's Executive Committee and a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust. As part of his PCCW group responsibility, Mr. Srinivas is focused on ensuring the group maintains its leadership position in all of its portfolio of businesses in Hong Kong, whilst crafting strategies to expand each line of business. Mr. Srinivas has over 30 years of experience and has assisted enterprises in leveraging technology to transform businesses. Prior to joining the PCCW group, he had worked for 15 years with Infosys Group, where his last role was the President and Director of Infosys Limited. He was also the Chairman of the board of Infosys Lodestone, a Swiss based European Business consulting organisation. Mr. Srinivas played a distinct role in crafting strategies and driving growth across several industry sectors for Infosys. Prior to that Mr. Srinivas worked for 14 years with Asea Brown Boveri Group, where he held several leadership positions in process Automation and Power transmission divisions. Mr. Srinivas has been on the panel of judges for the European Business Awards for three consecutive years and is a frequent speaker at the World Economic Forum, academic institutions such as INSEAD and Saïd Business School, Oxford and Yale. Mr. Srinivas holds a degree in mechanical engineering from Bangalore University, India, and has participated in executive programs at Wharton Business School, US, and the Indian Institute of Management Ahmedabad, India.

**Dick Sluimers**, aged 63, is a Director of the Issuer. He is the former CEO of APG Group (2008-2016). APG provides asset management, administration and fiduciary services for pension funds. By the end of 2015, APG's AUM was 415 billion euros on behalf of 4.5 million participants. His current position is Extraordinary State Councillor for the Council of State, which is the advisory body of the Dutch government under chairmanship of King Willem Alexander. Furthermore he is Chairman of the Supervisory Board of Euronext NV and is a member of the Supervisory Boards of AkzoNobel NV, NIBC Bank NV, Atradius NV and Trustee of the International Financial Reporting Standards Foundation, the supervisory body of the International Accounting Standards Board in London. Current cultural and educational board memberships include member of the Board of Governors of the State Academy of Finance and Economics, board member of the Amsterdam Concert Hall Fund, and Trustee of the Erasmus University Trust Fund. In September 2015 he was appointed to the Electoral Committee of the Liberal Party, the largest of the two current ruling political parties in the Netherlands, having previously served in this committee for the elections in 2010 and 2012. Mr Sluimers was Chairman of the Board of Directors and Chief Financial Officer of the pension fund ABP (2003-2008), the largest pension fund in the Netherlands and the third largest globally. Between 1991 and 2003 he held various positions at the Dutch Ministry of Finance, most recently as Director General of the Budget. Prior to that he was Deputy Director General at the Ministry of Public Health (1987-1991) and held senior positions at the Ministry of Social Affairs and the Ministry of Finance (1979-1987). Among the positions he held in the past are memberships of the Supervisory Boards of Fokker NV, the National Investment Bank NV, Inter Acces NV and ABP Insurance NV. He was also member of the Advisory Board of Rabobank, Chairman of the Board of Governors of the Postgraduate Programme for Treasury Management at the University of Amsterdam, member of the Advisory Board of Research Institute Netspar and board member of Holland Financial Centre. Mr Sluimers was born in 1953 in The Hague. He studied economics at Erasmus University Rotterdam and also read politics at the University of Amsterdam.

## DIRECTOR & CHIEF EXECUTIVE OFFICER

**Huynh Thanh Phong, OBE**, aged 50, is a Director and the Chief Executive Officer of the Issuer. In his role as FWD Group Chief Executive Officer, he leads the Group's regional operations and strategic development. Mr Huynh joined the Group from an advisory position with Argyle Street Management, a Hong Kong-based investment fund. He is Chairman of the FWD Life Hong Kong Board, and also holds various other Board directorships within the Group. Mr Huynh is an insurance professional with 30 years of experience in the insurance industry, covering North America, Asia and the Middle East. From 2010 to 2013, Mr. Huynh was Regional Chief Executive for AIA, responsible for leading the business operations in Singapore, Indonesia, Malaysia, Vietnam, India, Thailand and Sri Lanka. Under Mr Huynh's leadership these combined markets delivered more than US\$5 billion in total premium revenue and new business profit grew more than 100%. He also spearheaded a number of initiatives across the region, including the acquisition of insurance assets in Sri Lanka and Malaysia. Before AIA, from 2009 to 2010, Mr. Huynh was with Fullerton Financial Holdings, a wholly owned subsidiary of the Singaporean government's investment vehicle, Temasek Holdings, serving as Executive Vice President for Insurance. In this role, he assumed the mandate of building the life insurance arm to complement Fullerton's banking businesses in countries including Indonesia, Malaysia, Vietnam, China, India, Pakistan, and the Middle East. Mr Huynh was also responsible for Fullerton's non-life insurance assets. Prior to this, he held many senior level positions during his 12 years at Prudential plc, including the founding Chief Executive Officer of Prudential Vietnam and Regional Managing Director for Prudential Corporation Asia, managing its operations in East Asia, Southeast Asia, and the Middle East. He started his career in Canada with Crown Life, moved to Manulife Financial, then relocated to Asia in 1992 in the capacity of Manulife's Appointed Actuary for the Greater China Region. Mr. Huynh is a qualified actuary and a Fellow of both the Society of Actuaries (USA) and the Canadian Institute of Actuaries. He was awarded the title of Officer of the Order of the British Empire (OBE) by Queen Elizabeth II in 2005 in recognition of his contribution to the UK financial service sector in Vietnam. Mr Huynh graduated in 1986 with a Bachelor of Science degree from the University of Alberta, Canada.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Professor Frederick Ma Si-Hang, GBS, JP**, aged 64, is an Independent Non-Executive Director of the Issuer. Professor Ma was born and educated in Hong Kong. He graduated with a Bachelor of Arts (Honours) degree from the University of Hong Kong in 1973, majoring in economics and history. Since graduation, he has taken up different major positions with various local and overseas banks, financial institutions and major companies, including Chase Manhattan Bank, Royal Bank of Canada Dominion Securities, JP Morgan Chase, Kumagai Gumi (HK) Limited and Pacific Century Cyberworks Limited. He has rich experience in the banking and financial sectors. In 2002, he joined the Hong Kong Government as the Secretary for Financial Services and the Treasury and assumed the post of Secretary for Commerce and Economic Development in 2007. In October 2008, he was appointed as an Honorary Professor of the School of Economics and Finance at the University of Hong Kong. Professor Ma was appointed as a member of the International Advisory Council of China Investment Corporation, in July 2009. In July 2012, he was appointed as a Professor of Finance Practice of the Institute of Advanced Executive Education at the Hong Kong Polytechnic University. In January 2013, he was appointed as a member of the Global Advisory Council of the Bank of America. In August 2013, he was appointed as an Honorary Professor of the Faculty of Business Administration at the Chinese University of Hong Kong. In October 2014, he was conferred the Honorary Degree of Doctor of Social Sciences by Lingnan University. In October 2016, the City University of Hong Kong conferred on Professor Ma an Honorary Degree of Doctor of Social Sciences. Currently, he is the Chairman of the MTR Corporation Limited, a Director of Husky Energy Inc., and a Non-Executive Director of COFCO Corporation.

## 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:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Huynh Thanh Phong	50	Chief Executive Officer
Julian Mcqueen Lipman	48	Chief Operating Officer
Craig Alan Merdian	56	Chief Financial Officer
Alvin Chooi	44	Chief Strategy Officer
Florence Lam	53	Chief Human Resources Officer
Binayak Dutta	43	Chief Distribution Officer
Amy Hoe	54	Chief Technology & Operations Officer
Tim Oliver	52	Chief Commercial Officer

**Huynh Thanh Phong's** biography is set out above.

**Julian Lipman**, aged 48, is the Chief Operating Officer of the Issuer. Mr. Lipman is responsible for the operational function of the Issuer, ensuring practices are in compliance with Group policies and regulatory requirements in all countries. He oversees the resourcing and operation of the legal, compliance, and risk functions of the Group. Mr. Lipman has over 25 years of insurance experience across financial, actuarial, strategic planning and general management at both country and regional levels. Mr. Lipman joined the Issuer in January 2013 from Zurich Financial Services, where he was Head of Retail Distribution for Asia Pacific and Middle East. In this role at Zurich, he was responsible for implementing the life insurance strategy and supporting sales to retail customers through all distribution channels—tied agents, bancassurance and independent financial agents. Prior to his role as Head of Retail Distribution, Mr. Lipman was Commercial Director responsible for strategy, M&A, propositions, communications and marketing in Asia Pacific and the Middle East. Mr. Lipman was also a member of the regional executive committee supporting the general management and oversight of nine countries in the region. Prior to his work with Zurich, Mr. Lipman was the CEO of PCA Life (part of the Prudential Plc Group in Japan). Mr. Lipman's career history comprises senior management roles with Prudential, ACE and AIA, across the Asia Pacific region and the Middle East. Mr. Lipman is a qualified Actuary and a Fellow of the Institute of Actuaries of Australia. He holds a Bachelor of Economics degree from Macquarie University.

**Craig Merdian**, aged 56, is the Chief Financial Officer of the Issuer. Mr. Merdian leads the finance function of the Group, managing finance, actuarial, tax, control and audit matters and oversees the Group's financial controls, reporting, and compliance with Group policies and procedures across the business. He provides financial direction and strategic advice to the operating company CFOs, and is involved in all strategic and tactical matters of the business as they relate to budget management, cost benefit analysis and forecasting. Mr. Merdian has over 35 years of international experience in financial management, strategic planning and corporate development. Mr. Merdian joined the Issuer in April 2014 from Manulife, where he was Executive Vice President and CFO of Asia, leading the regional and local finance teams in eleven countries across the region. Mr. Merdian spent the first half of his career in actuarial consulting, primarily with Tillinghast. Since 1997, he has held a number of senior management roles in insurance companies, including Prudential Financial and New York Life International. Mr. Merdian is both a qualified accountant and actuary. He is a Fellow of the Society of Actuaries in the U.S., a certified public accountant, and a member of the American Academy of Actuaries. Mr. Merdian holds a Bachelor of Science in Business Administration degree in Accounting & Actuarial Science from Drake University in the United States.

**Alvin Chooi**, aged 44, is the Chief Strategy Officer of the Issuer. In this role, he is responsible for leading and managing all strategic and growth initiatives, including identifying and assessing opportunities for mergers-and-acquisitions ("M&A"), joint ventures and strategic alliances. Mr. Chooi works closely with senior management to formulate strategic plans for the business, and supports the implementation of the Issuer's strategic vision for growth to achieve the Issuer's long term objectives in the region. Mr. Chooi has over 20 years' experience in the financial services industry. Prior to joining the Issuer, Mr. Chooi served as a Director for Temasek's Financial Institutions Group that focused on investments in the financial services sector globally. He was responsible for all aspects of the investment cycle, leading and managing a team of investment professionals to handle acquisition and investment projects in the financial services sector. Mr. Chooi worked for PwC, UBS and Barclays prior to his role with Temasek. Mr. Chooi read law at the University of Birmingham, UK, and is both a member of the Institute of Chartered Accountants in England and Wales, and a CFA charterholder.

**Florence Lam**, aged 53, is the Chief Human Resources Officer of the Issuer. Ms. Lam is responsible for human resources management and providing leadership in the talent and recruitment support function across the Group. Overseeing organisational performance, Ms. Lam works closely with the Group's HR departments across the region to establish and implement HR efforts to support the achievement of overall business objectives. Prior to joining the Issuer, Ms. Lam was the Regional Head of Human Resources for North Asia as well as the Asia Head of Human Resources for Asset Wealth Management at JPMorgan. She was also the Alternate Chief Executive and one of the key management team members of the Hong Kong branch. Prior to JPMorgan, she worked for Bankers Trust, between 1996 and 1999, as Vice President, Human Resources and led the HR team for the Greater China Region. From 1994 to 1996, she was Associate Director, Human Resources at SBC Warburg (now UBS). From 1990 to 1994, she was the Human Resources Manager at AIG. She has previously held various roles with several multinational companies in the hotel industry and at Walt Disney World, USA. Ms. Lam earned a Masters Degree in Christian Ministry from Ecclesia Bible College and an MBA from Hong Kong Polytechnic University.

**Binayak Dutta**, aged 43, is the Chief Distribution Officer of the Issuer. Mr. Dutta is responsible for the overall strategic initiatives to maximise the Group's face-to-face distribution channels including agency, Bancassurance,

brokers and Independent Financial Advisers. He will leverage his extensive network and distribution expertise to support the operating country operations to establish leadership positions across these distribution channels. Mr. Dutta has over 15 years of experience in the insurance sector across a number of Asian countries. His most recent role was as Chief Executive Officer for Prudential Thailand. In this role at Prudential, Mr. Dutta was responsible for the overall performance of the company and oversaw the acquisition and successful integration of Thanachart Life with Prudential Thailand. Previously, Mr. Dutta was the Chief Executive Officer of Prudential Vietnam Assurance. He also has extensive experience in the Indian life insurance industry and held a number of senior distribution roles with ICICI Prudential Life, overseeing more than 200,000 agents and a dozen bank partnerships, and was part of the retail banking start-up team at ICICI Bank, which is now India's largest private sector bank today. He started his career in financial services at Bank of America. Mr. Dutta holds a Bachelors Degree in Economics with Honours from Jadavpur University, and has a Masters in Business Administration with dual specialisation in marketing and finance from the Institute of Management Technology in India.

**Amy Hoe**, aged 54, is the Chief Technology & Operations Officer of the Issuer. Ms. Hoe leads the Group's Technology and operations strategic direction and provides operational management for all aspects of operation services and the technology functions in the region. Ms. Hoe has over 20 years' experience in IT, customer service and insurance operations across various insurance business lines within Prudential, CIGNA and Aviva. From 2007 to 2013, she was regional Chief Operations Officer for Aviva's High Growth Emerging Markets operation, covering Asia and Eastern Europe. She was also a Non-Executive Director on various Aviva joint-venture boards. She also led the regional Operations and IT Shared Services as well as oversaw BPO operations in India for Aviva UK. Prior to working for Aviva, Ms. Hoe was Vice President, IT & Customer Services Operations at CIGNA Asia Pacific, and Global CIO for Life Accident & Health, CIGNA International Business (Asia Pacific, Europe and Latin America). She was Regional CIO/Customer Service & Operations Director at Aviva Asia Ptd. Ltd. for both Life & General Insurance, and spent nine years in Prudential UK Singapore Branch as Director of IT & Customer Service. Ms. Hoe has a double Bachelor Degree (honours) in Mathematics, Chemistry and Education from University Science Malaysia.

**Tim Oliver**, aged 52, is the Chief Commercial Officer of the Issuer. Mr. Oliver leads the Issuer's marketing and communications department. Mr. Oliver has more than 20 years' experience in insurance and consumer banking for multi-national financial institutions spanning Asia, Europe and Middle East, with businesses such as Cigna Worldwide, Citibank and Zurich Financial Services Group. Mr. Oliver was previously Chief Executive Officer, Aegon Integrated Marketing Services. He was also an Executive Board member of eight Aegon entities across Asia. Prior to working for Aegon, Mr. Oliver was Chief Executive Officer of Cigna Worldwide heading the Hong Kong operation. Mr. Oliver is originally from the UK and has worked in Asia for over 15 years in a number of senior executive positions across the insurance industry.

## **BOARD COMMITTEES**

### **Risk Management and Actuarial Committee**

The Issuer's Risk Management and Actuarial 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 RMAC also reviews and approves the Group's SAA, monitors implementation of the SAA and TAA and monitors significant risk issues. The RMAC 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 RMAC are David Cole (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 RMAC to ensure compensation packages to not encourage Senior Executives to take excessive risks. The current members of the Compensation Committee are the Honourable Ronald Arculli (Chairman), David Cole, 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 FY2015 and HY 2016, the total remuneration of all Directors was U.S.\$1,443,257 and U.S.\$523,573, respectively.



## TAXATION

The following is a general description of certain tax considerations relating to the Securities 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 Securities, whether in those countries or elsewhere. Prospective purchasers of the Securities should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Securities and receiving payments of distribution, principal and/or other amounts under the Securities 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 Securities accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Securities.

### CAYMAN ISLANDS

Payments of distribution and principal on the Securities will not be subject to taxation in the Cayman Islands, and no withholding will be required on the payment of distribution and principal to any holder of the Securities nor will gains derived from the disposal of the Securities 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 Securities. An instrument of transfer in respect of a Security is subject to nominal stamp duty 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 Island courts.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has received 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 issuance of the undertaking.

### HONG KONG

#### Withholding Tax

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

#### 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).

Distribution on the Securities 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) distribution on the Securities is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;
- (ii) distribution on the Securities is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) distribution on the Securities is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

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 Securities will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Securities will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution 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 Securities are acquired and disposed of.

### **Stamp Duty**

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

### **THE PROPOSED FINANCIAL TRANSACTIONS TAX**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**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 Securities (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal, the 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 Securities 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 that 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. Additional EU Member States may decide to participate.

Prospective holders of the Securities 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 (including the Cayman Islands and Hong Kong) 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. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Securities, 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 Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Securities, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

BNP Paribas, HSBC Bank plc and Standard Chartered Bank have, pursuant to a Subscription Agreement dated [●] 2017 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 Securities at the Issue Price ([●] per cent. of their principal amount). Any subsequent offering of the Securities 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 Securities and to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the Securities. 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 Securities.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of theirs is a licensed 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 Securities and be allocated the Securities 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 Securities 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 Securities 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 Securities.

The Issuer may agree to pay to certain private banks a private banking commission based on the principal amount of the Securities purchased by private bank clients.

## 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 Securities 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 Securities 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 Securities.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of the Securities within the United States by any dealer (whether or not participating in the offering of the Securities) 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 Securities 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 Securities in, from or otherwise involving the United Kingdom.

## REPUBLIC OF ITALY

The offering of the Securities has not been registered with the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to any Securities be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each of the Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Securities or distribute any copy of this Offering Circular or any other document relating to the Securities in Italy except:

- (a) to qualified investors (investitori qualificati), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Securities or distribution of copies of this Offering Circular or any other document relating to the Securities in Italy under paragraphs (a) or (b) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;
- (b) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (c) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

## SWITZERLAND

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Securities described herein. The Securities may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Securities or the offering constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Offering Circular nor any other offering or marketing material relating to the Securities may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, the Issuer, the Guarantor or the Securities have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of the Securities will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of the Securities has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (“**CISA**”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the Securities.

## 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 Securities other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“**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 or which do not constitute an offer to the public within the meaning of that Ordinance; 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 Securities, 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 Securities 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 that Ordinance.

## **SINGAPORE**

Each Joint Lead Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities 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 such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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 Securities 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 (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, 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 32 of the Securities and Futures (Offer of Investments, Shares and Debentures) Regulations 2005 of Singapore.

## **JAPAN**

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, 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 Securities 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 Securities 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 Securities.

## GENERAL INFORMATION

- Clearing Systems:** The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The securities codes for the Securities are as follows:  
ISIN: XS1520804250  
Common Code: 152080425
- Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Securities. The issue of the Securities was authorised by resolutions of the Board of Directors of the Issuer passed on 11 November 2016 and by resolutions of a sub-committee of the Board of Directors of the Issuer passed on [●] 2017.
- Listing of the Securities:** Application will be made to the SEHK for the listing of, and permission to deal in, the Securities by way of debt issues to Professional Investors only, and such permission is expected to become effective on or about [●] 2017.
- No Material Adverse Change:** There has been no material adverse change in the financial or trading position or prospects of the Issuer since 30 June 2016.
- 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 Securities, and the Issuer is not aware that any such proceedings are pending or threatened.
- 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 Certificate) and the Deed of Covenant will be available for inspection at the specified office of the Company at 22/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong during normal business hours, so long as any of the Securities is outstanding.
- Auditor:** The consolidated financial statements of the Issuer for the year ended 31 December 2014, the year ended 31 December 2015 and the period ended 30 June 2015 have been audited by Ernst & Young, Certified Public Accountants. The consolidated financial statements for the six months ended 30 June 2016 have been reviewed by Ernst & Young, Certified Public Accountants.

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Unaudited Interim Condensed Consolidated Financial Statements  
FWD Limited  
(Incorporated in the Cayman Islands with limited liability)  
For the six month period ended 30 June 2016



FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US\$'000

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>REVENUE</b>			
Gross premiums	6(a)	746,084	671,356
Reinsurers' share of gross premiums	6(b)	(115,519)	(122,886)
Change in unearned premiums	6(c)	<u>(2,735)</u>	<u>(3,226)</u>
Net premiums		627,830	545,244
Fees and commission income	7	201,951	90,091
Investment return	8	95,238	134,607
Other operating revenue		<u>51</u>	<u>21</u>
<b>TOTAL REVENUE</b>		<u><b>925,070</b></u>	<u><b>769,963</b></u>
<b>BENEFITS, CLAIMS AND EXPENSES</b>			
Net benefits and claims	9	(823,694)	(684,030)
Amortization of intangible assets	14	(13,043)	(13,054)
Net deferred acquisition cost movement	15	80,795	66,556
Finance costs		(10,472)	(8,746)
Commission and commission related expenses	10	(103,711)	(77,582)
Other operating and administrative expenses	11	<u>(69,872)</u>	<u>(52,893)</u>
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>		<u><b>(939,997)</b></u>	<u><b>(769,749)</b></u>
Share of gains/(losses) in associate		<u>(213)</u>	<u>-</u>
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>(15,140)</b>	<b>214</b>
Income tax (expense)/credit	12(a)	<u>(1,187)</u>	<u>(3,640)</u>
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<u><b>(16,327)</b></u>	<u><b>(3,426)</b></u>

continued/...

FWD LIMITED

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

US\$'000

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
PROFIT/(LOSS) FOR THE PERIOD		<u>(16,327)</u>	<u>(3,426)</u>
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	291,245	(33,083)
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8, 18.1	(6,943)	(10,586)
- impairment losses	8, 18.1	-	53
Income tax effect	12(b)	<u>(39,054)</u>	<u>6,711</u>
		245,248	(36,905)
Cash flow hedges:			
Effective portion of changes in fair value		-	-
Transfer from equity to statement of profit or loss		76	76
Income tax effect		-	-
		<u>76</u>	<u>76</u>
Exchange differences on translation of foreign operations		<u>(215)</u>	<u>100</u>
		(215)	100
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		<u>245,109</u>	<u>(36,729)</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit obligation		-	-
Income tax effect	12(b)	<u>-</u>	<u>-</u>
		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		<u>-</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>245,109</u>	<u>(36,729)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>228,782</u>	<u>(40,155)</u>

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$'000

	Notes	30 June 2016	31 December 2015
<b>ASSETS</b>			
Goodwill	13	902,009	902,084
Intangible assets	14	586,162	599,244
Deferred acquisition cost	15	494,177	413,201
Plant and equipment	16	13,393	11,631
Investment property	17	10,036	-
<b>Financial assets</b>			
Available-for-sale financial assets	18.1	6,248,295	5,391,990
Financial assets at fair value through profit or loss	18.2	1,197,972	1,200,810
Loans and receivables	18.3	142,149	139,266
Derivative financial instruments	18.4	2,049	6,661
Held for sale investment	19	35,935	-
Reinsurance assets	26	885,070	383,799
Investment in associate		9,817	-
Prepayments, deposits and other assets	23	120,500	77,247
Deferred tax assets	12(b)	-	10,222
Insurance receivables	24	105,452	83,070
Due from related parties	33(b)	4,101	3,839
Cash and cash equivalents	25	359,542	396,588
<b>TOTAL ASSETS</b>		<b><u>11,116,659</u></b>	<b><u>9,619,652</u></b>
<b>LIABILITIES</b>			
Insurance contract liabilities	26	7,602,835	6,460,659
Investment contract liabilities	27	694,202	703,585
Due to related parties	33(b)	38,411	2,189
Deferred acquisition cost – Reinsurer's share	15	1,753	1,553
Borrowings	28	420,200	419,949
Derivative financial instruments	18.4	6,511	181
Deferred tax liabilities	12(b)	30,822	1,267
Insurance and other liabilities	29	199,644	146,845
<b>TOTAL LIABILITIES</b>		<b><u>8,994,378</u></b>	<b><u>7,736,228</u></b>
<b>EQUITY</b>			
Issued capital	30	268	268
Share premium	30	1,837,844	1,837,844
Capital redemption reserve	30	18,302	18,302
Share-based payment reserve	30	25,734	15,659
Legal reserve	30	1,561	1,562
Cash flow hedge reserve	30	(1,272)	(1,348)
Available-for-sale financial assets revaluation reserve	30	213,868	(31,380)
Foreign currency translation reserve	30	(109)	105
Retained earnings/(accumulated losses)		26,085	42,412
<b>TOTAL EQUITY</b>		<b><u>2,122,281</u></b>	<b><u>1,883,424</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>11,116,659</u></b>	<b><u>9,619,652</u></b>

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$'000

	Note	Issued capital	Share premium	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)	Total equity
1 January 2016		268	1,837,844	18,302	15,659	1,562	(1,348)	(31,380)	-	105	42,412	1,883,424
Issuance of shares	30	-	-	-	-	-	-	-	-	-	-	-
Change in share-based payment reserve	34	-	-	-	10,075	-	-	-	-	-	-	10,075
Total comprehensive income for the period		-	-	-	-	-	76	245,248	-	(215)	(16,327)	228,782
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	-	-
Change in foreign currency translation reserve		-	-	-	-	(1)	-	-	-	1	-	-
30 June 2016	30	268	1,837,844	18,302	25,734	1,561	(1,272)	213,868	-	(109)	26,085	2,122,281

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

US\$'000

	Note	Issued capital	Share premium	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)	Total equity
1 January 2015		211	1,830,176	18,302	12,619	1,562	(1,502)	26,239	492	31	42,603	1,930,733
Issuance of shares	30	1	7,668	-	(7,669)	-	-	-	-	-	-	-
Change in share-based payment reserve	34	-	-	-	3,720	-	-	-	-	-	-	3,720
Total comprehensive income for the period		-	-	-	-	-	76	(36,905)	-	100	(3,426)	(40,155)
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	-	-
Transfer from defined benefit obligation reserve		-	-	-	-	-	-	-	(492)	-	492	-
Change in foreign currency translation reserve		-	1	-	-	-	-	-	-	(1)	-	-
30 June 2015	30	212	1,837,845	18,302	8,670	1,562	(1,426)	(10,666)	-	130	39,669	1,894,298

FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US\$'000

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		(15,140)	214
Adjustments for:			
Dividend income	8	(9,711)	(11,567)
Interest income	8	(93,341)	(76,983)
Net realized (gain)/loss on disposal of financial assets	8	(2,562)	(10,779)
Fair value (gain)/loss on financial assets	8	10,579	(35,382)
Depreciation of plant and equipment	16	2,654	2,093
Loss on disposal of plant and equipment		16	-
Impairment on available-for-sale financial assets	8	-	53
Impairment/(Reversal of impairment) on secured loans	8	(63)	56
Finance cost		10,472	8,746
Share of (gain)/loss of associate		213	-
P&L impact of share-based payment	34	10,075	3,720
Amortization of intangible assets	14	13,043	13,054
Deferred acquisition cost ("DAC") movement	15	(80,996)	(66,751)
Foreign exchange (gain)/loss		(113)	53
		<u>(154,874)</u>	<u>(173,473)</u>
(Increase)/decrease in reinsurance assets		(501,271)	(97,254)
(Increase)/decrease in prepayments, deposits and other assets		(43,253)	4,645
(Increase)/decrease in insurance receivables		(22,382)	(36,101)
(Increase)/decrease in amounts due from related parties		(262)	(433)
(Decrease)/increase in insurance contract liabilities		1,142,176	492,961
(Decrease)/increase in investment contract liabilities		(9,383)	29,211
(Decrease)/increase in amounts due to related parties		36,222	(27,507)
(Decrease)/increase in amounts DAC – reinsurer's share		201	196
(Decrease)/increase in insurance and other liabilities		<u>52,389</u>	<u>(84,914)</u>
Cash flows generated from operations		499,563	107,331
Dividend received from investments		14,957	14,066
Interest received		111,654	83,121
Investment expenses paid		(5,242)	(3,925)
Income tax paid		-	(278)
Net cash flows from operating activities		<u>620,932</u>	<u>200,315</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of non-controlling interest in associate		(10,000)	-
Purchases of intangible assets	14(b)	-	-
Purchases of plant and equipment	16	(4,430)	(1,873)
Proceeds from sales of plant and equipment		-	-
Purchase of investment property	17	(10,036)	-
Purchases of financial assets		(1,102,555)	(1,860,644)
Purchase of held for sale investment	19	(35,935)	-
Proceeds from disposal and maturities of financial assets		515,178	1,528,172
Decrease/(Increase) in pledged deposits		(857)	(661)
Net cash flows used in investing activities		<u>(648,635)</u>	<u>(335,006)</u>

continued/...

FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US\$'000

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of other equity instruments		-	-
Proceeds from bank loans		-	-
Proceeds of bond issuance		-	98,661
Bond issuance costs		-	(375)
Repayment of bank loans		-	-
Finance costs paid on bank loan and bond borrowings		<u>(10,200)</u>	<u>(8,125)</u>
Net cash flows from financing activities		<u>(10,200)</u>	<u>90,161</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(37,903)</b>	<b>(44,530)</b>
Cash and cash equivalents at beginning of the period		385,240	446,490
Effect of foreign exchange rate changes, net		-	-
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>25</b>	<u><u>347,337</u></u>	<u><u>401,960</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		321,049	366,995
Non-pledged time deposits with original maturity of less than three months when acquired		<u>26,288</u>	<u>34,965</u>
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		<u><u>347,337</u></u>	<u><u>401,960</u></u>

30 June 2016

## 1. CORPORATE INFORMATION

FWD LIMITED (the "Company") was incorporated on 13 December 2012 in the Cayman Islands, with its registered office at Offshore Incorporations (Cayman) Limited, Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, 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, general insurance, and investment services.

In the opinion of the directors, PCGI Limited (formerly Jamison Limited), a company incorporated in the Cayman Islands, is the Company's immediate and ultimate holding company as at the end of the reporting period. PCGI Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 14.9% (December 2015:14.9%) shareholder of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**2.1 Basis of preparation**

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for investment properties, 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. These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the period ended 31 December 2015, except for the adoption of revised standards and interpretations effective as of 1 January 2016 as described below.

- (a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2016 and have no material impact for the Group:

IAS 1 Amendments	<i>Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative</i>
IAS 16 Amendments	<i>Amendments to IAS 16 Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation</i>
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits – Discount rate regional market issue</i>
IAS 28 Amendments	<i>Amendments to IAS 28 Investments in Associates and Joint Ventures – Applying the Consolidation Exception</i>
IAS 34 Amendments	<i>Amendments to IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'</i>
IAS 38 Amendments	<i>Amendments to IAS 38 Intangible Assets – Clarification of Acceptable Methods of Amortization</i>
IFRS 5 Amendments	<i>Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Change in methods of disposal</i>
IFRS 7 Amendments	<i>Amendments to IFRS 7 Financial Instruments – Service contracts and Applicability of the amendments to IFRS 7 to condensed interim financial statements</i>
IFRS 10 Amendments	<i>Amendments to IFRS 10 Consolidated Financial Statements – Applying the Consolidation Exception</i>
IFRS 11 Amendments	<i>Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i>
IFRS 12 Amendments	<i>Amendments to IFRS 12 Disclosure of Interests in Other Entities – Applying the Consolidation Exception</i>



30 June 2016

## 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 period ended 30 June 2016 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:

IAS 7 Amendments	<i>Amendments to IAS 7 Financial Instruments: Disclosures – Disclosure Initiative<sup>1</sup></i>
IAS 12 Amendments	<i>Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses<sup>1</sup></i>
IFRS 2 Amendments	<i>Amendments to IFRS 2 Share-based Payment – the Classification and Measurement of Share-based Payment Transactions<sup>2</sup></i>
IFRS 10 and IAS 28 Amendments	<i>Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
IFRS 16	<i>Leases<sup>3</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> Effective date deferred indefinitely

(c) The following relevant new standard has been issued but is not effective for the financial period ended 30 June 2016 and has not been early adopted (the financial year for which the adoption is required is stated).

IFRS 9	<i>Financial Instruments<sup>1</sup></i>
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<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

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

IFRS 9, issued in July 2014, replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. This version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatory for periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group has not early adopted the standard for these consolidated financial statements. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Actual results can always differ, perhaps significantly, from the judgements, assumptions and estimates made by management.

In preparing these unaudited interim condensed consolidated financial statements, the significant accounting judgements made by management in applying the Group's accounting policies, as well as key assumptions concerning the future and other key sources of estimation uncertainty, are the same as those applied to the annual consolidated financial statements for the period ended 31 December 2015.

## 4. EXCHANGE RATES

The Group's principal operations during the reporting years are Hong Kong and Macau. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rate	
	Six months ended 30 June 2016	Six months ended 30 June 2015
Hong Kong	7.768	7.754
Macau	8.001	7.988

Assets and liabilities have been translated at the following period end rates:

	US dollar exchange rate		
	30 June 2016	31 December 2015	30 June 2015
Hong Kong	7.759	7.750	7.752
Macau	7.992	7.983	7.985

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 5. SEGMENT INFORMATION

The reportable segments of the Group correspond to its principal subsidiary legal entities representing the life insurance business and the general insurance business, as follows:

- The life insurance segment provides life insurance products and services to customers in Hong Kong and Macau. Life insurance is the Group's largest business line and comprises traditional participating life insurance products, traditional non-participating life insurance products, accident and health insurance non-participating products, investment-linked insurance products and universal life insurance products.
- The general insurance segment provides a range of general insurance products for individuals and commercial institutions in Hong Kong, including health and medical care insurance, motor insurance, property insurance and marine insurance.

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

	Six months ended 30 June 2016			Total
	Life Insurance	General Insurance	Corporate and Others	
Net premiums	610,670	17,160	-	627,830
Fees and commission income	194,845	3,928	3,178	201,951
Investment return	93,605	1,240	393	95,175
Other operating revenue	22	-	29	51
<b>TOTAL REVENUE</b>	<b>899,142</b>	<b>22,328</b>	<b>3,600</b>	<b>925,007</b>
Net benefits and claims	(815,729)	(7,965)	-	(823,694)
Amortization of intangible assets	(13,043)	-	-	(13,043)
Net deferred acquisition cost movement	80,183	612	-	80,795
Finance costs	-	-	(10,472)	(10,472)
Commission and commission related expenses	(94,501)	(8,115)	(1,095)	(103,711)
Other operating and administrative expenses	(52,870)	(4,544)	(12,458)	(69,809)
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>	<b>(895,960)</b>	<b>(20,012)</b>	<b>(24,025)</b>	<b>(939,934)</b>
Share of gains/(losses) in associate	-	-	(213)	(213)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>3,182</b>	<b>2,316</b>	<b>(20,638)</b>	<b>(15,140)</b>
Income tax expense	(721)	(313)	(153)	(1,187)
<b>NET PROFIT/(LOSS)</b>	<b>2,461</b>	<b>2,003</b>	<b>(20,791)</b>	<b>(16,327)</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>	<b>242,784</b>	<b>1,827</b>	<b>498</b>	<b>245,109</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>245,245</b>	<b>3,830</b>	<b>(20,293)</b>	<b>228,782</b>
	30 June 2016			
<b>TOTAL ASSETS</b>	<b>10,934,098</b>	<b>143,363</b>	<b>39,198</b>	<b>11,116,659</b>
<b>TOTAL LIABILITIES</b>	<b>8,486,329</b>	<b>82,310</b>	<b>425,739</b>	<b>8,994,378</b>
<b>TOTAL EQUITY</b>	<b>2,447,769</b>	<b>61,053</b>	<b>(386,541)</b>	<b>2,122,281</b>

continued/...

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

5. SEGMENT INFORMATION (continued)

US\$'000

	Six months ended 30 June 2015			Total
	Life Insurance	General Insurance	Corporate and Others	
Net premiums	526,543	18,701	-	545,244
Fees and commission income	82,746	3,905	3,440	90,091
Investment return	132,771	1,110	726	134,607
Other operating revenue	22	-	(1)	21
<b>TOTAL REVENUE</b>	<b><u>742,082</u></b>	<b><u>23,716</u></b>	<b><u>4,165</u></b>	<b><u>769,963</u></b>
Net benefits and claims	(671,367)	(12,663)	-	(684,030)
Amortization of intangible assets	(13,054)	-	-	(13,054)
Net deferred acquisition cost movement	66,149	407	-	66,556
Finance costs	-	-	(8,746)	(8,746)
Commission and commission related expenses	(68,226)	(8,543)	(813)	(77,582)
Other operating and administrative expenses	(42,479)	(4,365)	(6,049)	(52,893)
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>	<b><u>(728,977)</u></b>	<b><u>(25,164)</u></b>	<b><u>(15,608)</u></b>	<b><u>(769,749)</u></b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>13,105</b>	<b>(1,448)</b>	<b>(11,443)</b>	<b>214</b>
Income tax expense	(3,754)	309	(195)	(3,640)
<b>NET PROFIT/(LOSS)</b>	<b><u>9,351</u></b>	<b><u>(1,139)</u></b>	<b><u>(11,638)</u></b>	<b><u>(3,426)</u></b>
OTHER COMPREHENSIVE INCOME, NET OF TAX	(37,733)	821	183	(36,729)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b><u>(28,382)</u></b>	<b><u>(318)</u></b>	<b><u>(11,455)</u></b>	<b><u>(40,155)</u></b>
	31 December 2015			
TOTAL ASSETS	9,446,811	126,230	46,611	9,619,652
TOTAL LIABILITIES	7,243,504	69,060	423,664	7,736,228
TOTAL EQUITY	<u>2,203,307</u>	<u>57,170</u>	<u>(377,053)</u>	<u>1,883,424</u>

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NOTES TO FINANCIAL STATEMENTS

30 June 2016

6. NET PREMIUMS

US\$'000	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
(a) Gross premiums			
Life insurance contracts		698,475	602,842
Non-life insurance contracts		36,027	37,073
Investment contracts with DPF		<u>11,582</u>	<u>31,441</u>
Total gross premiums		<u>746,084</u>	<u>671,356</u>
(b) Reinsurers' share of gross premiums			
Life insurance contracts		(99,388)	(107,741)
Non-life insurance contracts	26	(16,131)	(15,145)
Investment contracts with DPF		-	-
Total reinsurers' share of gross premiums		<u>(115,519)</u>	<u>(122,886)</u>
(c) Change in unearned premiums			
Non-life insurance contracts		(2,735)	(3,226)

7. FEES AND COMMISSION INCOME

US\$'000	Six months ended 30 June 2016	Six months ended 30 June 2015
Policyholder administration service fees and surrender charges		
Insurance contracts	45,363	46,230
Investment contracts	2,518	2,555
Reinsurance commission income	149,486	39,167
Commission income	<u>4,584</u>	<u>2,139</u>
	<u>201,951</u>	<u>90,091</u>

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NOTES TO FINANCIAL STATEMENTS

30 June 2016

8. INVESTMENT RETURN

US\$'000	Six months ended 30 June 2016	Six months ended 30 June 2015
Interest income	93,341	76,687
Dividend income	<u>9,711</u>	<u>11,567</u>
Investment income	103,052	88,254
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	9,544	13,172
Financial assets designated at fair value through profit or loss	375	5,122
Derivative financial instruments	249	795
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(2,601)	(2,586)
Financial assets designated at fair value through profit or loss	(4,767)	(231)
Derivative financial instruments	<u>(238)</u>	<u>(5,493)</u>
Net realized gains/(losses) on financial assets	2,562	10,779
Fair value gains/(losses) on derivative financial instruments	(10,943)	7,774
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	<u>364</u>	<u>27,608</u>
Net fair value gains/(losses) on financial assets	(10,579)	35,382
(Impairment)/Reversal of impairment of available-for-sale financial assets	-	(53)
(Impairment)/Reversal of impairment on secured loans	63	(56)
Foreign exchange difference	<u>140</u>	<u>301</u>
Total investment return	<u><u>95,238</u></u>	<u><u>134,607</u></u>

The impairment or reversal of impairment of available-for-sale financial assets and secured loans are in the life insurance segment.

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NOTES TO FINANCIAL STATEMENTS

30 June 2016

9. NET BENEFITS AND CLAIMS INCURRED

US\$'000	Six months ended 30 June 2016	Six months ended 30 June 2015
(a) Gross benefits and claims paid		
Life insurance contract benefits and claims paid		
With DPF	138,497	136,162
Without DPF	<u>104,144</u>	<u>177,933</u>
Total life insurance contract benefits and claims paid	242,641	314,095
Non-life insurance contract benefits and claims paid	14,026	14,661
Investment contracts with DPF benefits and claims paid	<u>10,704</u>	<u>12,202</u>
Total gross benefits and claims paid	<u><u>267,371</u></u>	<u><u>340,958</u></u>
(b) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(4,973)	(3,087)
Without DPF	<u>(2,567)</u>	<u>(737)</u>
Total reinsurers' share of life insurance contract benefits and claims paid	(7,540)	(3,824)
Reinsurers' share of non-life insurance contract benefits and claims paid	<u>(8,279)</u>	<u>(7,431)</u>
Total reinsurers' share of benefits and claims paid	<u><u>(15,819)</u></u>	<u><u>(11,255)</u></u>
(c) Gross change in contract liabilities		
Change in life insurance contract liabilities		
With DPF	1,050,450	446,875
Without DPF	<u>9,191</u>	<u>(35,511)</u>
Total change in life insurance contract liabilities	1,059,641	411,364
Change in non-life insurance contract liabilities	3,764	5,597
Change in investment contract liabilities with DPF	<u>7,048</u>	<u>32,379</u>
Total gross change in contract liabilities	<u><u>1,070,453</u></u>	<u><u>449,340</u></u>
(d) Reinsurer's share of gross change in contract liabilities		
Reinsurer's share of change in life insurance contract liabilities		
With DPF	(496,227)	-
Without DPF	<u>(538)</u>	<u>(94,849)</u>
Reinsurers' share of change in non-life insurance contract liabilities(1,546)	<u>(164)</u>	<u>-</u>
Total reinsurers' share of gross change in contract liabilities	<u><u>(498,311)</u></u>	<u><u>(95,013)</u></u>
Total net benefits and claims	<u><u>823,694</u></u>	<u><u>684,030</u></u>

The total interest expense of the investment contract liabilities with DPF was US\$2,902,416 (2015:US\$2,925,605).

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

10. COMMISSION AND COMMISSION RELATED EXPENSES

US\$'000	Six months ended 30 June 2016	Six months ended 30 June 2015
Commission expenses	60,868	55,065
Commission related expenses	<u>42,843</u>	<u>22,517</u>
	<u>103,711</u>	<u>77,582</u>

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US\$'000	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
Advertising and marketing expenses		7,586	4,443
Auditor's remuneration		503	584
Bank charges and other professional service fees		4,898	2,149
Depreciation	16	2,654	2,093
Employee benefit expenses			
Salaries and allowances		26,301	22,135
Share-based payment expenses	34	10,075	3,720
Pension contribution		1,185	1,014
Other staff costs		1,853	1,899
Group management fee		1,984	1,821
Office related expenses		2,071	1,992
Operating leases rental		6,397	5,582
Others		2,682	4,509
Foreign exchange differences, net		<u>1,683</u>	<u>952</u>
Total		<u>69,872</u>	<u>52,893</u>



## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 12. TAXATION

## a) Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
US\$'000			
Current – Hong Kong			
Charge for the period		(465)	(195)
(Under-provision)/Over-provision in prior periods		-	-
Current – Elsewhere		-	-
Deferred	12(b)	(722)	(3,445)
		<u>(1,187)</u>	<u>(3,640)</u>

A reconciliation of the tax credit/expense applicable to profit/(loss) before tax at the statutory rate 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:

	Six months ended 30 June 2016	%
US\$'000		
Profit before tax	<u>(15,140)</u>	
Tax at the statutory tax rate	2,508	(16.6)
Income not subject to tax	2,645	12.4
Intangible asset amortization not subject to tax	(1,064)	(14.2)
Expenses not deductible for tax	(5,098)	(11.0)
Tax losses not recognized	(179)	(18.7)
Others	1	(0.0)
	<u>(1,187)</u>	<u>7.8</u>
Six months ended 30 June 2015		
US\$'000		
Profit before tax	<u>214</u>	
Tax at the statutory tax rate	(35)	(16.5)
Income not subject to tax	2,343	1,094.9
Intangible asset amortization not subject to tax	(966)	(451.4)
Expenses not deductible for tax	(5,041)	(2,355.6)
Tax losses not recognized	(45)	(21.0)
Others	104	48.6
	<u>(3,640)</u>	<u>(1,700.9)</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 12. TAXATION (continued)

## b) Deferred Tax

The movement in deferred tax assets/(liabilities) during the period is as follows:

US\$'000			Insurance contract liabilities	Deferred acquisition cost	Revaluation of available- for-sale financial assets	Tax losses and other temporary differences	Total
	Notes						
1 January 2016			22,873	(66,428)	(17,075)	69,585	8,955
Deferred tax credited/(charged) to profit or loss	12(a)		(68,560)	(13,073)	-	80,911	(722)
Deferred tax credited/(charged) to other comprehensive Income			-	-	(39,054)	-	(39,054)
Foreign exchange difference			(2)	2	-	(1)	(1)
30 June 2016			<u>(45,689)</u>	<u>(79,499)</u>	<u>(56,129)</u>	<u>150,495</u>	<u>(30,822)</u>

US\$'000			Insurance contract liabilities	Deferred acquisition cost	Revaluation of available- for-sale financial assets	Tax losses and other temporary differences	Total
	Notes						
1 January 2015			2,537	(39,382)	(36,648)	71,282	(2,211)
Deferred tax credited/(charged) to profit or loss	12(a)		18,188	(10,800)	-	(10,833)	(3,445)
Deferred tax credited/(charged) to other comprehensive Income			-	-	6,711	-	6,711
Foreign exchange difference			-	-	(1)	-	(1)
30 June 2015			<u>20,725</u>	<u>(50,182)</u>	<u>(29,938)</u>	<u>60,449</u>	<u>1,054</u>

In 2016, the negative balance shown above of US\$30,822,000 represents deferred tax liabilities of US\$30,822,000. In 2015, the positive balance shown above of US\$1,054,000 represents deferred tax assets of US\$2,302,000 and deferred tax liabilities of US\$1,248,000.

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 of US\$18,721,000 (December 2015: US\$17,331,000) that are available indefinitely for offsetting against taxable profits from one of its subsidiaries in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as it is not considered probable that taxable profits will be available against which these tax losses can be utilized in the foreseeable future.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

13. GOODWILL

US\$'000	30 June 2016	30 June 2015
At beginning of period		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	<u>27</u>	<u>-</u>
Net carrying amount	902,084	902,057
Movement during the period		
Net carrying amount at beginning of period	902,084	902,057
Impairment provided during the period	-	-
Foreign exchange difference	<u>(75)</u>	<u>18</u>
Net carrying amount	902,009	902,075
At end of period		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	<u>(48)</u>	<u>18</u>
Net carrying amount	<u>902,009</u>	<u>902,075</u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

14. INTANGIBLE ASSETS

US\$'000	Notes	30 June 2016	30 June 2015
Value of business acquired	14(a)	571,496	585,466
Other intangible assets	14(b)	14,666	28,373
		<u>586,162</u>	<u>613,839</u>

(a) Value of business acquired

US\$'000	30 June 2016	30 June 2015
At beginning of period	578,057	591,360
Amortization during the period	(6,522)	(5,903)
Foreign exchange difference	(39)	9
At end of period	<u>571,496</u>	<u>585,466</u>

(b) Other intangible assets

US\$'000	30 June 2016	30 June 2015
At beginning of period	21,187	35,457
Additions	-	67
Amortization during the period	(6,521)	(7,151)
Foreign exchange difference	-	-
At end of period	<u>14,666</u>	<u>28,373</u>

The intangible assets represent retention fees paid to agents under a retention program launched in 2014.

15. DEFERRED ACQUISITION COST

US\$'000	30 June 2016		
	Gross	Reinsurers' share	Net
At beginning of period	413,201	(1,553)	411,648
Expenses deferred	103,441	(201)	103,240
Amortization during the period	(22,445)	-	(22,445)
Foreign exchange difference	(20)	1	(19)
At end of period	<u>494,177</u>	<u>(1,753)</u>	<u>492,424</u>

US\$'000	30 June 2015		
	Gross	Reinsurers' share	Net
At beginning of period	247,553	(1,487)	246,066
Expenses deferred	78,685	(195)	78,490
Amortization during the period	(11,934)	-	(11,934)
Foreign exchange difference	7	(1)	6
At end of period	<u>314,311</u>	<u>(1,683)</u>	<u>312,628</u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

16. PLANT AND EQUIPMENT

US\$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
<b>30 June 2016</b>					
31 December 2015:					
Cost	11,333	150	1,761	8,273	21,517
Accumulated depreciation	(5,728)	(25)	(620)	(3,513)	(9,886)
Net carrying amount	<u>5,605</u>	<u>125</u>	<u>1,141</u>	<u>4,760</u>	<u>11,631</u>
31 December 2015, net of accumulated depreciation					
	5,605	125	1,141	4,760	11,631
Additions	2,843	-	428	1,159	4,430
Disposals	(8)	-	(3)	(5)	(16)
Depreciation provided during the period	(1,213)	(18)	(215)	(1,208)	(2,654)
Foreign exchange difference	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
30 June 2016, net of accumulated depreciation	<u>7,229</u>	<u>107</u>	<u>1,351</u>	<u>4,706</u>	<u>13,393</u>
30 June 2016:					
Cost	13,964	150	2,110	9,417	25,641
Accumulated depreciation	(6,735)	(43)	(759)	(4,711)	(12,248)
Net carrying amount	<u>7,229</u>	<u>107</u>	<u>1,351</u>	<u>4,706</u>	<u>13,393</u>
<b>30 June 2015</b>					
31 December 2014:					
Cost	10,462	208	1,561	5,308	17,539
Accumulated depreciation	(3,782)	(87)	(271)	(1,682)	(5,822)
Net carrying amount	<u>6,680</u>	<u>121</u>	<u>1,290</u>	<u>3,626</u>	<u>11,717</u>
31 December 2014, net of accumulated depreciation					
	6,680	121	1,290	3,626	11,717
Additions	405	-	26	1,442	1,873
Disposals	-	-	-	-	-
Depreciation provided during the period	(1,018)	(24)	(174)	(877)	(2,093)
Foreign exchange difference	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
30 June 2015, net of accumulated depreciation	<u>6,067</u>	<u>97</u>	<u>1,142</u>	<u>4,191</u>	<u>11,497</u>
30 June 2015:					
Cost	10,867	208	1,587	6,750	19,412
Accumulated depreciation	(4,800)	(111)	(445)	(2,559)	(7,915)
Net carrying amount	<u>6,067</u>	<u>97</u>	<u>1,142</u>	<u>4,191</u>	<u>11,497</u>

NOTES TO FINANCIAL STATEMENTS

30 June 2016

17. INVESTMENT PROPERTY

On 30 May 2016, FWD Life Insurance Company (Bermuda) Limited (“FWD HK”) acquired Future Radiance Limited, the holding company of Sky Accord Limited for a total consideration of US\$10,000,000. Sky Accord Limited is the holding company of the investment property of the Group, which consists of one commercial signage in Hong Kong. The investment property is leased to third parties under operating leases and its carrying amount approximates its fair value.

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

30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.1 Available-for-sale financial assets****Debt securities**

US\$'000

30 June 2016

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
<b>Government bonds</b>						
<b>- issued in local currency</b>						
Hong Kong	AAA	-	22,909	269	11,865	35,043
United States	AA	111,958	493,246	-	383,939	989,143
Sub-total		<u>111,958</u>	<u>516,155</u>	<u>269</u>	<u>395,804</u>	<u>1,024,186</u>
<b>Government bonds</b>						
<b>- issued in foreign currency</b>						
South Korea	A	12,038	3,237	-	1,062	16,337
Qatar	AA	3,055	16,850	-	2,435	22,340
Netherlands	AA	7,461	4,223	-	1,430	13,114
China	AA	5,069	9,093	-	1,088	15,250
United Arab Emirates	AA	4,561	-	-	-	4,561
Cayman Islands	AA	6,672	6,364	-	2,531	15,567
Singapore	AAA	688	15,901	-	4,841	21,430
Finland	AA	-	-	-	301	301
Canada	AAA	-	-	-	302	302
Sub-total		<u>39,544</u>	<u>55,668</u>	<u>-</u>	<u>13,990</u>	<u>109,202</u>
<b>Government agency bonds<sup>(1)</sup></b>						
AAA		-	-	-	3,364	3,364
AA		-	9,788	-	1,893	11,681
A		-	-	-	261	261
Sub-total		<u>-</u>	<u>9,788</u>	<u>-</u>	<u>5,518</u>	<u>15,306</u>
<b>Corporate bonds</b>						
AAA		20,992	29,245	572	7,516	58,325
AA		141,101	249,235	6,746	42,094	439,176
A		1,302,515	1,226,084	2,691	132,414	2,663,704
BBB		744,473	629,664	2,604	47,057	1,423,798
Below investment grade		6,126	10,491	-	7,136	23,753
Not rated		-	-	-	702	702
Sub-total		<u>2,215,207</u>	<u>2,144,719</u>	<u>12,613</u>	<u>236,919</u>	<u>4,609,458</u>
<b>Structured securities<sup>(2)</sup></b>						
AAA		-	-	-	-	-
Sub-total		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

(2) Structured securities include collateralized debt obligations, mortgage-backed securities and other asset-backed securities.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.1 Available-for-sale financial assets (continued)****Equity securities**

US\$'000

30 June 2016

	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Equity shares - Listed	-	82,149	-	69,250	151,399
Equity shares - Unlisted	66,708	53,853	-	6,794	127,355
Interest in investment funds	161,751	26,320	-	-	188,071
Sub-total	<u>228,459</u>	<u>162,322</u>	<u>-</u>	<u>76,044</u>	<u>466,825</u>
<b><u>Others</u></b>					
Certificates of deposit	-	-	-	23,073	23,073
Others	-	80	-	165	245
Sub-total	<u>-</u>	<u>80</u>	<u>-</u>	<u>23,238</u>	<u>23,318</u>
<b>Total Available-for-sale financial assets</b>	<u><u>2,595,168</u></u>	<u><u>2,888,732</u></u>	<u><u>12,882</u></u>	<u><u>751,513</u></u>	<u><u>6,248,295</u></u>



30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.1 Available-for-sale financial assets (continued)****Debt securities**

US\$'000

31 December 2015

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
<b>Government bonds</b>						
<b>- issued in local currency</b>						
Hong Kong	AAA	-	22,955	275	12,414	35,644
United States	AA	109,137	419,672	-	350,679	879,488
Sub-total		109,137	442,627	275	363,093	915,132
<b>Government bonds</b>						
<b>- issued in foreign currency</b>						
South Korea	A	11,580	3,201	-	1,048	15,829
Qatar	AA	3,050	13,388	-	1,888	18,326
Netherlands	AA	7,374	4,150	-	1,397	12,921
China	AA	4,935	8,641	-	1,058	14,634
United Arab Emirates	AA	4,641	-	-	-	4,641
Cayman Islands	AA	6,504	6,104	-	2,467	15,075
Singapore	AAA	600	13,821	-	1,673	16,094
Finland	AA	-	-	-	298	298
Canada	AAA	-	-	-	299	299
Sub-total		38,684	49,305	-	10,128	98,117
<b>Government agency bonds<sup>(1)</sup></b>						
AAA		-	-	-	1,810	1,810
AA		-	-	-	1,361	1,361
Sub-total		-	-	-	3,171	3,171
<b>Corporate bonds</b>						
AAA		16,531	27,914	567	7,578	52,590
AA		236,623	404,775	6,839	54,792	703,029
A		971,747	910,353	2,736	110,881	1,995,717
BBB		562,721	536,593	6,527	36,862	1,142,703
Below investment grade		6,229	10,980	-	6,629	23,838
Not rated		-	-	-	640	640
Sub-total		1,793,851	1,890,615	16,669	217,382	3,918,517
<b>Structured securities<sup>(2)</sup></b>						
AAA		-	-	-	-	-
Sub-total		-	-	-	-	-

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

(2) Structured securities include collateralized debt obligations, mortgage-backed securities and other asset-backed securities.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.1 Available-for-sale financial assets (continued)****Equity securities**

US\$'000

31 December 2015

	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Equity shares - Listed	-	61,170	-	68,755	129,925
Equity shares - Unlisted	49,568	54,787	-	7,669	112,024
Interest in investment funds	163,020	25,971	-	-	188,991
Sub-total	<u>212,588</u>	<u>141,928</u>	<u>-</u>	<u>76,424</u>	<u>430,940</u>
<b><u>Others</u></b>					
Certificates of deposit	-	-	-	25,872	25,872
Others	-	80	-	161	241
Sub-total	<u>-</u>	<u>80</u>	<u>-</u>	<u>26,033</u>	<u>26,113</u>
<b>Total Available-for-sale financial assets</b>	<u><u>2,154,260</u></u>	<u><u>2,524,555</u></u>	<u><u>16,944</u></u>	<u><u>696,231</u></u>	<u><u>5,391,990</u></u>

During the period, 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\$291,245,000 (2015: a decrease of US\$33,083,000). Net realized gains of US\$6,943,000 (2015: net realized gains of US\$10,586,000) with nil impairment loss (2015: US\$53,000) were reclassified from other comprehensive income to profit or loss.

Bonds of US\$154,402,564 (December 2015: US\$135,126,000) were used to guarantee the insurance reserves at 30 June 2016 as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.2 Financial assets at fair value through profit or loss****Debt securities**US\$'000  
30 June 2016

		<u>Policyholder and shareholder</u> Deposit administration	<u>Investment-Linked</u>	<u>Total</u>
<b>Government bonds</b>				
<b>- issued in local currency</b>				
Hong Kong	AAA	9,969	-	9,969
Sub-total		<u>9,969</u>	<u>-</u>	<u>9,969</u>
<b>Government bonds</b>				
<b>- issued in foreign currency</b>				
South Korea	A	1,743	-	1,743
Qatar	AA	577	-	577
China	AA	1,354	-	1,354
Cayman Islands	AA	965	-	965
Singapore	AAA	-	-	-
Sub-total		<u>4,639</u>	<u>-</u>	<u>4,639</u>
<b>Government agency bonds<sup>(1)</sup></b>				
AAA		1,541	-	1,541
AA		1,566	-	1,566
Sub-total		<u>3,107</u>	<u>-</u>	<u>3,107</u>
<b>Corporate bonds</b>				
AAA		14,180	-	14,180
AA		108,893	-	108,893
A		136,229	-	136,229
BBB		4,581	-	4,581
Below investment grade		-	-	-
Sub-total		<u>263,883</u>	<u>-</u>	<u>263,883</u>

(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  
30 June 2016

	<u>Policyholder and shareholder</u> Deposit administration	<u>Investment-Linked</u>	<u>Total</u>
Equity shares - Listed	47,972	-	47,972
Equity shares - Unlisted	24,948	-	24,948
Interest in investment funds	-	843,454	843,454
Sub-total	<u>72,920</u>	<u>843,454</u>	<u>916,374</u>

**Others**US\$'000  
30 June 2016

	<u>Policyholder and shareholder</u> Deposit administration	<u>Investment-Linked</u>	<u>Total</u>
Certificates of deposit	-	-	-
<b>Total financial assets at fair value through profit or loss</b>	<u><u>354,518</u></u>	<u><u>843,454</u></u>	<u><u>1,197,972</u></u>

All financial assets at fair value through profit or loss at 30 June 2016 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.2 Financial assets at fair value through profit or loss (continued)****Debt securities**

US\$'000

31 December 2015

		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
<b>Government bonds</b>				
<b>- issued in local currency</b>				
Hong Kong	AAA	9,915	-	9,915
Sub-total		<u>9,915</u>	<u>-</u>	<u>9,915</u>
<b>Government bonds</b>				
<b>- issued in foreign currency</b>				
South Korea	A	1,724	-	1,724
Qatar	AA	571	-	571
China	AA	1,314	-	1,314
Cayman Islands	AA	969	-	969
Singapore	AAA	-	-	-
Sub-total		<u>4,578</u>	<u>-</u>	<u>4,578</u>
<b>Government agency bonds<sup>(1)</sup></b>				
AAA		1,557	-	1,557
AA		-	-	-
Sub-total		<u>1,557</u>	<u>-</u>	<u>1,557</u>
<b>Corporate bonds</b>				
AAA		15,007	-	15,007
AA		116,747	-	116,747
A		123,621	-	123,621
BBB		3,150	-	3,150
Below investment grade		-	-	-
Sub-total		<u>258,525</u>	<u>-</u>	<u>258,525</u>

(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 2015

		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
Equity shares - Listed		44,398	-	44,398
Equity shares - Unlisted		15,050	-	15,050
Interest in investment funds		-	866,787	866,787
Sub-total		<u>59,448</u>	<u>866,787</u>	<u>926,235</u>

**Others**

US\$'000

31 December 2015

		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
Certificates of deposit		-	-	-
<b>Total financial assets at fair value through profit or loss</b>		<u>334,023</u>	<u>866,787</u>	<u>1,200,810</u>

All financial assets at fair value through profit or loss at 31 December 2015 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 18. FINANCIAL ASSETS (continued)

**18.3 Loans and receivables**

US\$'000	30 June 2016	31 December 2015
Policy loans	64,101	63,617
Secured loans	16,307	15,529
Accreting deposits	62,270	60,712
Provision for impairment	(529)	(592)
At end of period	<u>142,149</u>	<u>139,266</u>

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 9% (December 2015: 9%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses.

The movements in provision for impairment of secured loans are as follows:

US\$'000	30 June 2016	31 December 2015
At beginning of period	(592)	(342)
(Impairment)/Reversal of impairment charged for the period	63	(250)
At end of period	<u>(529)</u>	<u>(592)</u>

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquent in repayment. The gross amount of the loans was US\$16,307,000 (December 2015: US\$15,529,000) with a carrying amount of US\$15,778,000 (December 2015: US\$14,937,000).

Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate to their fair values.

**18.4 Derivative financial investments**

The Group had the following derivative financial instruments outstanding as at the end of the reporting period.

US\$'000	<u>Contract/notional Amount</u>	<u>Carrying Amount</u> Assets	<u>Carrying Amount</u> Liabilities
30 June 2016	<u>2,350,311</u>	<u>2,049</u>	<u>6,511</u>
31 December 2015	<u>1,890,319</u>	<u>6,661</u>	<u>181</u>

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 and foreign exchange forwards, 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.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 19. HELD FOR SALE INVESTMENT

On 30 June 2016, the Group acquired 100% interest in Great Eastern (Life) Co. Ltd (Vietnam) in Vietnam (“Great Eastern”) for a total consideration of US\$35,935,000. The Group intends to sell Great Eastern in the near future, and its carrying amount approximates its fair value.

## 20. 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 period are as follows:

30 June 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	-	23,318	142,149	165,467
Debt securities	281,598	5,758,152	-	6,039,750
Equity securities	916,374	466,825	-	1,383,199
Derivative financial instruments	2,049	-	-	2,049
Held for sale investment	35,935	-	-	35,935
Deposits and other assets	-	-	120,500	120,500
Insurance receivables	-	-	105,452	105,452
Due from related parties	-	-	4,101	4,101
Cash and cash equivalents	-	-	359,542	359,542
	<u>1,235,956</u>	<u>6,248,295</u>	<u>731,744</u>	<u>8,215,995</u>

Financial liabilities

US\$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	694,202	-	694,202
Due to related parties	-	38,405	38,405
Borrowings	-	420,200	420,200
Derivative financial instruments	6,511	-	6,511
Insurance and other liabilities	-	199,650	199,650
	<u>700,713</u>	<u>658,255</u>	<u>1,358,968</u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

20. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2015

Financial assets

US\$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	26,113	139,266	165,379
Debt securities	274,575	4,934,937	-	5,209,512
Equity securities	926,235	430,940	-	1,357,175
Derivative financial instruments	6,661	-	-	6,661
Deposits and other assets	-	-	62,080	62,080
Insurance receivables	-	-	83,070	83,070
Due from related parties	-	-	3,839	3,839
Cash and cash equivalents	-	-	396,588	396,588
	<u>1,207,471</u>	<u>5,391,990</u>	<u>684,843</u>	<u>7,484,304</u>

Financial liabilities

US\$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	703,585	-	703,585
Due to related parties	-	2,189	2,189
Borrowings	-	419,949	419,949
Derivative financial instruments	181	-	181
Insurance and other liabilities	-	146,845	146,845
	<u>703,766</u>	<u>568,983</u>	<u>1,272,749</u>

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for borrowings which have a fair value of US\$460,762,653 (December 2015: US\$438,638,000).

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of 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.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 21. FAIR VALUE 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 of the investments, the Group's ownership percentage in 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 30 June 2016 and 30 June 2015, 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.

## 22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

30 June 2016

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale financial assets	18.1	1,333,764	4,787,137	127,394	6,248,295
Financial assets at fair value through profit or loss	18.2	892,084	280,940	24,948	1,197,972
Derivative financial instruments	18.4	-	2,049	-	2,049
Held for sale investment	19	-	35,935	-	35,935
		<u>2,225,848</u>	<u>5,106,061</u>	<u>152,342</u>	<u>7,484,251</u>

31 December 2015

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale financial assets	18.1	1,177,273	4,102,655	112,062	5,391,990
Financial assets at fair value through profit or loss	18.2	911,856	273,904	15,050	1,200,810
Derivative financial instruments	18.4	-	6,661	-	6,661
		<u>2,089,129</u>	<u>4,383,220</u>	<u>127,112</u>	<u>6,599,461</u>



## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

30 June 2016

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Derivative financial instruments	18.4	-	6,511	-	6,511
		<u>-</u>	<u>6,511</u>	<u>-</u>	<u>6,511</u>

31 December 2015

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Derivative financial instruments	18.4	-	181	-	181
		<u>-</u>	<u>181</u>	<u>-</u>	<u>181</u>

Liabilities for which fair values are disclosed:

30 June 2016

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Borrowings	20	357,184	103,579	-	460,763
		<u>357,184</u>	<u>103,579</u>	<u>-</u>	<u>460,763</u>

31 December 2015

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Borrowings	20	339,550	99,088	-	438,638
		<u>339,550</u>	<u>99,088</u>	<u>-</u>	<u>438,638</u>

The movement in the fair value measurement in the Group's Level 3 financial assets during the period is as follows:

US\$'000	30 June 2016	30 June 2015
Financial assets - unlisted		
At beginning of period	127,112	75,057
Impairment charged for the period	-	(53)
Fair value change recognized through profit or loss	(463)	(2,595)
Fair value change recognized in other comprehensive income	(4,423)	17,565
Purchases/(Disposals)	30,114	29,823
At end of period	<u>152,342</u>	<u>119,797</u>

During the period, there were no transfers of financial instruments between Level 1 and Level 2, and no transfers into or out of Level 3.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

23. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US\$'000	30 June 2016	31 December 2015
Accounts receivable	3,918	3,284
Accrued investment income	53,399	49,954
Deposits	4,418	4,656
Investment receivable	44,993	3,067
Prepayments	13,482	15,167
Other assets	290	1,119
Total prepayments, deposits and other assets	<u>120,500</u>	<u>77,247</u>

24. INSURANCE RECEIVABLES

US\$'000	30 June 2016	31 December 2015
Due from policyholders	34,972	34,439
Due from reinsurers	69,792	46,727
Premium deposit fund under reinsurance arrangement	<u>688</u>	<u>1,904</u>
Total insurance receivables	<u>105,452</u>	<u>83,070</u>
Current insurance receivables	<u>105,452</u>	<u>83,070</u>

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 the 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.

Premium deposit fund under reinsurance arrangement represents a premium deposit made with the reinsurer on which interest is accrued. Renewal reinsurance premiums payable to the reinsurer under the policy are deducted from the premium deposit fund on each policy anniversary.

The carrying amounts of insurance receivables approximate to their fair values.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

25. CASH AND CASH EQUIVALENTS

US\$'000	30 June 2016	31 December 2015
Time deposits	38,494	56,699
Savings accounts	184,563	207,913
Current accounts	136,478	131,965
Cash on hand	<u>7</u>	<u>11</u>
	<u>359,542</u>	<u>396,588</u>
Less: Pledged time deposits	<u>(12,205)</u>	<u>(11,348)</u>
Cash and cash equivalents	<u><u>347,337</u></u>	<u><u>385,240</u></u>

Time deposits of US\$12,205,000 (December 2015: US\$11,348,000) were used to guarantee the insurance reserve as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

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 36 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 26. INSURANCE CONTRACT LIABILITIES

US\$'000		30 June 2016		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	7,531,066	(874,540)	6,656,526
Non-life insurance contracts	(b)	71,769	(10,530)	61,239
Total insurance contract liabilities		<u>7,602,835</u>	<u>(885,070)</u>	<u>6,717,765</u>

US\$'000		31 December 2015		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	6,398,299	(377,779)	6,020,520
Non-life insurance contracts	(b)	62,360	(6,020)	56,340
Total insurance contract liabilities		<u>6,460,659</u>	<u>(383,799)</u>	<u>6,076,860</u>

**Business description**

The table below summarizes the key variables underlying life insurance and investment 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.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Lapses</li> <li>• Morbidity</li> <li>• Dividend / bonus rates</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Partial withdrawals</li> <li>• Premium holidays</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>
Universal Life	Universal Life contracts combine savings with protection. Account balances are credited with interest at a rate set by the insurer.	Benefits are based on the account balance and death and living benefits.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Crediting rates</li> <li>• Lapses</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 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.

Type of contract	Market and credit risk			Significant insurance and lapse risks
	Direct exposure		Indirect exposure	
	Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life assurance with DPF	<ul style="list-style-type: none"> <li>Net neutral except for the insurer's share of participating investment performance</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral except for the insurer's share of participating investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Impact of persistency on future dividends</li> <li>Mortality</li> <li>Morbidity</li> </ul>
Traditional non-participating life assurance	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Asset-liability mismatch risk</li> <li>Credit Risk</li> <li>Investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Morbidity</li> <li>Persistency</li> </ul>
Accident and health non-participating	<ul style="list-style-type: none"> <li>Loss ratio</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Credit risk</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Morbidity</li> <li>Persistency</li> </ul>
Pension	<ul style="list-style-type: none"> <li>Net neutral except minimum crediting rate is zero</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral except minimum crediting rate is zero</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Performance related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Persistency</li> </ul>
Investment-Linked	<ul style="list-style-type: none"> <li>Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Persistency</li> <li>Partial withdrawals</li> <li>Premium holidays</li> </ul>
Universal Life	<ul style="list-style-type: none"> <li>Guarantees</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Credit risk</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Spread between earned rate and crediting rate to policyholders</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Persistency</li> <li>Partial withdrawals</li> <li>Premium holidays</li> </ul>

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 and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

## NOTES TO FINANCIAL STATEMENTS

30 June 2016

## 26. INSURANCE CONTRACT LIABILITIES (continued)

## (b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US\$'000	Notes	30 June 2016		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		28,062	(3,974)	24,088
Provision for claims incurred but not reported ("IBNR")		<u>10,452</u>	<u>(967)</u>	<u>9,485</u>
Total claims reported and IBNR	(i)	38,514	(4,941)	33,573
Provision for unearned premiums	(ii)	<u>33,255</u>	<u>(5,589)</u>	<u>27,666</u>
Total non-life insurance contract liabilities		<u>71,769</u>	<u>(10,530)</u>	<u>61,239</u>
US\$'000		31 December 2015		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		26,190	(3,483)	22,707
Provision for claims incurred but not reported ("IBNR")		<u>8,593</u>	<u>85</u>	<u>8,678</u>
Total claims reported and IBNR	(i)	34,783	(3,398)	31,385
Provision for unearned premiums	(ii)	<u>27,577</u>	<u>(2,622)</u>	<u>24,955</u>
Total non-life insurance contract liabilities		<u>62,360</u>	<u>(6,020)</u>	<u>56,340</u>

## 27. INVESTMENT CONTRACT LIABILITIES

US\$'000	Notes	30 June 2016	31 December 2015
		Gross and net investment contract liabilities	Gross and net investment contract liabilities
Investment contract liabilities with DPF	(a)	411,780	404,839
Investment contract liabilities without DPF	(b)	<u>282,422</u>	<u>298,746</u>
Total investment contract liabilities		<u>694,202</u>	<u>703,585</u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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28. BORROWINGS

US\$'000

	30 June 2016	31 December 2015
Medium Term Notes	<u>420,200</u>	<u>419,949</u>
Total Borrowings	<u><u>420,200</u></u>	<u><u>419,949</u></u>

29. INSURANCE AND OTHER LIABILITIES

US\$'000

	30 June 2016	31 December 2015
Accounts payable	5,256	823
Accrued commissions	43,702	51,647
Accrued expenses	19,550	18,957
Accrued agent expenses	50,382	50,150
Insurance payables	4,051	1,029
Investment creditors	60,833	658
Others	15,110	23,286
Tax payable	<u>760</u>	<u>295</u>
Total insurance and other liabilities	<u><u>199,644</u></u>	<u><u>146,845</u></u>

The carrying amounts of the insurance and other liabilities approximate to their fair values.

FWD LIMITED

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30. SHARE CAPITAL AND RESERVES

(1) Share capital

US\$'000

	30 June 2016	31 December 2015
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	<u>5,000</u>	<u>5,000</u>
	<u>25,000</u>	<u>25,000</u>
Issued and fully paid,		
18,586,640 (December 2015: 18,586,640) ordinary shares of US\$0.01 each	186	186
8,202,225 (December 2015: 8,202,225) preference shares of US\$0.01 each	<u>82</u>	<u>82</u>
	<u>268</u>	<u>268</u>

During the period, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
<i>(a) Ordinary shares issued and fully paid</i>		
Issuance of 10 ordinary shares of US\$1 each on 13 December 2012	-	-
Issuance of 18,486,630 ordinary shares of US\$1 each on 27 February 2013	18,487	1,830,176
Surrender of 18,301,773.6 ordinary shares of US\$1 each on 10 December 2013	(18,302)	-
Sub-division of 184,866.4 ordinary shares of US\$1 each to 18,486,640 ordinary shares of US\$0.01 each on 10 December 2013	-	-
31 December 2014	<u>185</u>	<u>1,830,176</u>
Issuance of 100,000 ordinary shares of US\$0.01 each on 5 June 2015	<u>1</u>	<u>7,668</u>
30 June 2016/31 December 2015	<u>186</u>	<u>1,837,844</u>
<i>(b) Preference shares issued and fully paid</i>		
13 December 2012	-	-
Issuance of 2,601,634 preference shares of US\$0.01 each On 10 December 2013	<u>26</u>	-
31 December 2014	<u>26</u>	-
Issuance of 5,600,591 preference shares of US\$0.01 each On 19 August 2015	<u>56</u>	-
30 June 2016/31 December 2015	<u>82</u>	-
30 June 2016/31 December 2015	<u>268</u>	<u>1,837,844</u>

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.



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30. SHARE CAPITAL AND RESERVES (continued)

(2) 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 Article 60 of the Decree-Law No. 32/93/M of 30 July 1993 of Macau.

(c) *Cash flow hedge reserve*

The cash flow hedge reserve represents the cumulative gain or loss on the hedging instrument from inception of the cash flow hedge.

(d) *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.

(e) *Defined benefit obligation revaluation reserve*

The defined benefit obligation revaluation reserve comprises the outstanding reserve for the defined benefit plan.

(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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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31. 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		Principal activities
		Direct	Indirect	
FWD Financial Services Pte. Limited	Singapore	100	-	Investment holding
FWD Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Company (Bermuda) Limited	Bermuda/ Hong Kong	40	60	Life Insurance
FWD Life Insurance Company (Macau) Limited	Macau	-	100	Life Insurance
FWD General Insurance Company Limited	Hong Kong	-	100	General Insurance
FWD Financial Planning Limited	Hong Kong	-	100	Investment Advisory
FWD Pension Trust Limited	Hong Kong	-	100	Trust company

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above.

The percentage of total direct and indirect equity attributable to the Group in each of the above subsidiaries was the same at both 30 June 2016 and 31 December 2015.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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32. COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 8 years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

US\$'000	30 June 2016	
	Lowest	Highest
Within one year	32,298	33,293
In the second to fifth years, inclusive	109,989	120,294
Over five years	60,872	61,014
	<u>203,159</u>	<u>214,601</u>

US\$'000	31 December 2015	
	Lowest	Highest
Within one year	33,658	33,658
In the second to fifth years, inclusive	117,417	121,540
Over five years	75,213	76,208
	<u>226,288</u>	<u>231,406</u>

The monthly rental of two operating lease arrangements is subject to change once the first term expires, with the rental amount determined by an independent surveyor within agreed ranges according to market conditions.

## NOTES TO FINANCIAL STATEMENTS

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## 33. 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	Six months ended 30 June 2016	Six months ended 30 June 2015
Short-term employee benefits	5,325	4,540
Post-employment benefits	85	122
Share-based payment	10,075	3,720
Other long-term benefits	<u>3,687</u>	<u>4,947</u>
Total compensation paid and payable to key management personnel	<u>19,172</u>	<u>13,329</u>

*(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 period.
- (i) The Group charged US\$1,354,000 (2015: US\$1,324,000) to a related party for provision of IT, HR and other building-related services and incurred US\$1,984,000 (2015: US\$1,821,000) for administration, consultancy and management services provided by the related party.
- (ii) Related companies charged US\$4,166,000 (2015: US\$3,358,000) for the provision of telecommunication and investment advisory services and US\$306,000 (2015: US\$229,000) for brand licensing fees to the Group.
- (iii) The Group has underwritten various group insurance contracts with related companies. The total premium revenue from those contracts for the period was US\$666,000 (2015: US\$1,487,000).
- (II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US\$4,101,000 (December 2015: US\$3,839,000) as at the end of the reporting period. 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\$38,411,000 (December 2015: US\$2,189,000) as at the end of the reporting period. The advances are unsecured, interest-free and payable on demand.

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## 34. SHARE-BASED COMPENSATION

**Share-based compensation plans**

The Group operates a share award plan that provides FWD 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 Limited.

The following table shows the movement in outstanding awards under the Group's share-based compensation plans:

Number of shares	June 2016	June 2015
At beginning of period	950,000	950,000
Granted during the period	-	-
Vested during the period	(100,000)	-
At end of period	850,000	950,000

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 period ended 30 June 2016 is nil (2015: 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 period ended 30 June 2016 is US\$10.7million (2015:US\$3.7million).

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## 35. 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 the objectives, policies or processes for managing capital during the periods ended 30 June 2016 and 31 December 2015.

**Regulatory Solvency**

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

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Company (Bermuda) Limited	Hong Kong Office of the Commissioner of Insurance (HKOCI)	Hong Kong Insurance Company Ordinance (HKICO)
FWD General Insurance Company Limited	Hong Kong Office of the Commissioner of Insurance (HKOCI)	Hong Kong Insurance Company Ordinance (HKICO)

The capital positions of the Group's principal operating companies at 30 June 2016 and 31 December 2015 are as follows:

30 June 2016 US\$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	574,656	240,607	239%
FWD General Insurance Company Limited	43,177	6,180	699%
31 December 2015 US\$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	489,714	226,357	216%
FWD General Insurance Company Limited	42,366	6,382	664%

The HKICO (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 Hong Kong. The HKOCI requires FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKICO is 100 per cent of the required minimum solvency margin.

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.

**Capital and Regulatory Orders Specific to the Group**

At 30 June 2016 and 31 December 2015, the requirements and restrictions summarized below may be considered material to the Group and remain in effect unless otherwise stated.

**Hong Kong Office of the Commissioner of Insurance**

Undertakings have been given to the HKOCI that:

- (i) FWD Life Insurance Company (Bermuda) Limited will maintain and continue to maintain a solvency ratio target of 150 per cent to 200 per cent at all times and if the solvency ratio falls below the minimum target range, FWD Life Insurance Company (Bermuda) Limited will reinstate it within 90 days or a period of time as agreed with the HKOCI;
- (ii) FWD General Insurance Company Limited will maintain and continue to maintain a solvency ratio target of 300% to 500% at all times and if the solvency ratio falls below the minimum target range, FWD General Insurance Company Limited will reinstate it within 90 days or a period of time as agreed with the HKOCI; and
- (iii) Prior written consent from HKOCI will be obtained before declaring or paying dividends to shareholders.

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36. 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 and investment 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.

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## 36. RISK MANAGEMENT (continued)

**Insurance risks**(1) Life insurance contracts and investment 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	30 June 2016	30 June 2015
10% increase in mortality	(784)	(897)
10% increase in morbidity	(1,983)	(1,750)
1% decrease in investment return	(1,608)	(604)
10% increase in expenses	(5,126)	(4,268)
10% increase in lapse/discontinuance rates	(10,366)	(8,544)

## (2) Non-life insurance contracts

The Group's non-life insurance business is diversified over seven classes of business. The Group has developed a robust underwriting framework to ensure that all risks accepted meet the guidelines and standards of the Group.

The Group's non-life insurance business is primarily derived from Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Group's insurance portfolio. The Group has developed a reinsurance strategy to ensure that a prudent and appropriate reinsurance program is in place, which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Group's reinsurance strategy include protection of shareholders' funds, reduction in volatility of the Group's underwriting result and diversified credit risk. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment of reinsurance assets.

## (i) Case estimates

For non-life insurance contracts, the case estimate for each reported claim is set up based on the best estimate of the ultimate claim settlement amount considering all the information available for the claim. The case estimate is revised from time to time according to the latest information available. When setting case estimates for larger claims, reference is made to the advice of independent consultants such as loss adjusters and solicitors where applicable.

## (ii) Key assumptions

Generally accepted actuarial methodologies, such as chain-ladder and Bornhuetter-Ferguson methods, are used to project the ultimate claims by class of business. The Group's past experience and claim development patterns are important assumptions for such projections. Other assumptions include average claim costs, claims handling expenses and claims inflation. The projected ultimate claim amount may also be judgmentally adjusted by external factors such as prevailing trends in judicial decisions, the economic environment and relevant government legislation.

## (iii) Sensitivities

Sensitivity analysis is performed to assess the effect of increasing the claim liabilities by 10% on the Group's net income and shareholders' equity.

In performing the sensitivity analysis, it is assumed that all reinsurance recoveries are recoverable.



## NOTES TO FINANCIAL STATEMENTS

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## 36. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

## (2) Non-life insurance contracts (continued)

The table below shows the results of the sensitivity analysis:

		30 June 2016			
US\$'000	Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	1,781	797	797	(666)
		30 June 2015			
US\$'000	Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	2,026	1,267	(1,267)	(1,058)

\* Impact on equity reflects adjustments for tax, when applicable.

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36. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

Loss development triangle

The tables below show the development of incurred claims, including both notified and IBNR claims, over time for each successive accident year following the reporting period. Cumulative claims payments as at the current reporting period are also shown.

30 June 2016

Gross claims development  
US\$'000

Accident Year	Note	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Accident year		31,516	18,649	18,350	18,692	20,399	24,293	25,699	29,024	38,178	22,970	
One year later		30,757	16,674	15,776	16,917	18,922	21,651	23,436	27,276	33,197		
Two years later		30,945	16,840	16,108	17,450	20,111	23,229	25,482	27,584			
Three years later		30,603	16,980	15,867	17,898	20,865	23,285	25,527				
Four years later		29,417	16,696	15,644	18,442	20,253	22,733					
Five years later		28,861	16,619	15,568	18,276	20,340						
Six years later		28,710	16,518	15,568	18,233							
Seven years later		28,626	16,488	15,549								
Eight years later		28,614	16,486									
Nine years later		28,612										
Current estimate of Cumulative claims		28,612	16,486	15,549	18,233	20,340	22,733	25,527	27,584	33,197	22,970	231,231
Cumulative payment to date		(28,393)	(16,294)	(15,497)	(18,066)	(19,681)	(20,934)	(21,622)	(21,098)	(23,513)	(7,619)	(192,717)
Total gross non-life insurance claim liabilities as per the statement of financial position	26(b)	219	192	52	167	659	1,799	3,905	6,486	9,684	15,351	38,514

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

Loss development triangle (continued)

30 June 2016

Net claims development  
US\$'000

Accident Year	Note	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Accident year		28,541	16,493	16,832	17,424	19,153	22,421	24,567	27,890	22,502	15,162	
One year later		27,582	15,013	14,660	15,935	17,640	20,092	22,365	26,158	15,810		
Two years later		27,068	15,116	15,030	16,462	18,566	21,746	23,953	26,311			
Three years later		25,634	14,719	14,815	16,709	18,613	21,795	23,979				
Four years later		24,228	13,950	14,522	16,798	18,195	21,198					
Five years later		23,677	13,758	14,601	16,574	18,142						
Six years later		23,512	13,723	14,525	16,564							
Seven years later		23,458	13,670	14,513								
Eight years later		23,436	13,668									
Nine years later		23,436										
Current estimate of Cumulative claims		23,436	13,668	14,513	16,564	18,142	21,198	23,979	26,311	15,810	15,162	188,783
Cumulative payment to date		(23,287)	(13,638)	(14,479)	(16,410)	(17,770)	(19,499)	(20,288)	(20,315)	(7,524)	(2,000)	(155,210)
Total net non-life insurance claim liabilities as per the statement of financial position	26(b)	149	30	34	154	372	1,699	3,691	5,996	8,286	13,162	33,573

The estimated claim liabilities are subject to a significant degree of uncertainty, and could vary materially depending on the development of future claims experience. Differences resulting from reassessment of the ultimate liabilities will be recognized in subsequent financial statements.

30 June 2016

36. RISK MANAGEMENT (continued)

**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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. 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 period.

(a)	Credit risk (continued)									
	30 June 2016									
	US\$'000									
	AAA	AA	A	BBB	BB	B	Not rated	Total		
<b>Financial assets</b>										
Available-for-sale	1,054,270	600,810	2,677,506	1,424,184	22,095	1,658	467,772	6,248,295		
Fair value through profit or loss	25,691	115,098	136,229	4,581	-	-	916,373	1,197,972		
Loans and receivables	-	-	62,270	-	-	-	79,879	142,149		
Derivative financial instruments	-	-	2,049	-	-	-	-	2,049		
Held for sale investment	-	-	-	-	-	-	35,935	35,935		
Reinsurance assets	-	484,053	390,487	-	-	-	10,530	885,070		
Prepayments, deposits and other assets	-	-	-	-	-	-	120,500	120,500		
Insurance receivables	-	-	-	-	-	-	105,452	105,452		
Due from related parties	-	-	-	-	-	-	4,101	4,101		
Cash and cash equivalents	-	30,859	325,258	1,092	-	-	2,333	359,542		
	<u>1,079,961</u>	<u>1,230,820</u>	<u>3,593,799</u>	<u>1,429,857</u>	<u>22,095</u>	<u>1,658</u>	<u>1,742,875</u>	<u>9,101,065</u>		

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. RISK MANAGEMENT (continued)

**Financial risks (continued)**

	(a) <u>Credit risk (continued)</u>							
	31 December 2015							
	AAA	AA	A	BBB	BB	B	Not rated	Total
US\$'000								
Financial assets								
Available-for-sale	985,925	796,001	2,010,475	1,143,930	22,022	1,816	431,821	5,391,990
Fair value through profit or loss	26,479	121,325	123,621	3,150	-	-	926,235	1,200,810
Loans and receivables	-	-	60,712	-	-	-	78,554	139,266
Derivative financial instruments	-	-	6,661	-	-	-	-	6,661
Reinsurance assets	-	375,027	2,752	-	-	-	6,020	383,799
Prepayments, deposits and other assets	-	53	186	-	-	-	77,008	77,247
Insurance receivables	-	-	-	-	-	-	83,070	83,070
Due from related parties	-	-	-	-	-	-	3,839	3,839
Cash and cash equivalents	-	34,727	357,733	748	-	-	3,380	396,588
	<u>1,012,404</u>	<u>1,327,133</u>	<u>2,562,140</u>	<u>1,147,828</u>	<u>22,022</u>	<u>1,816</u>	<u>1,609,927</u>	<u>7,683,270</u>

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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. 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 and investment 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 and investment 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 period to their contractual maturities or expected repayment dates. Most of the Group's assets are used to support its insurance and investment contract liabilities, which are not shown in the table below. Refer to Notes 26 and 27 for additional information on the Group's insurance and investment contract liabilities, as well as to the Insurance Risks section within Note 36.

30 June 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	173,269	544,353	878,481	4,185,122	467,070	6,248,295
Fair value through profit or loss	75,434	52,176	94,908	95,016	880,438	1,197,972
Loans and receivables	1,495	5,200	1,665	70,217	63,572	142,149
Derivative financial instruments	265	1,650	134	-	-	2,049
Held for sale investment	-	-	-	-	35,935	35,935
Deposits and other assets	62,080	-	-	-	-	62,080
Insurance receivables	105,452	-	-	-	-	105,452
Due from related parties	4,101	-	-	-	-	4,101
Cash and cash equivalents	330,079	-	-	-	29,463	359,542
<b>Total</b>	<b>752,175</b>	<b>603,379</b>	<b>975,188</b>	<b>4,350,355</b>	<b>1,476,478</b>	<b>8,157,575</b>
Financial liabilities						
Borrowings	-	-	-	420,200	-	420,200
Derivative financial instruments	645	1,489	4,377	-	-	6,511
Insurance and other liabilities	199,650	-	-	-	-	199,650
Due to related parties	38,405	-	-	-	-	38,405
<b>Total</b>	<b>238,700</b>	<b>1,489</b>	<b>4,377</b>	<b>420,200</b>	<b>-</b>	<b>664,766</b>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. RISK MANAGEMENT (continued)

**Financial risks (continued)**

*(b) Liquidity risk (continued)*

31 December 2015

US\$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
<b>Financial assets</b>						
Available-for-sale	108,949	502,945	845,020	3,503,895	431,181	5,391,990
Fair value through profit or loss	37,638	60,220	71,357	105,360	926,235	1,200,810
Loans and receivables	1,567	4,172	2,122	68,380	63,025	139,266
Derivative financial instruments	879	2,299	3,483	-	-	6,661
Deposits and other assets	62,080	-	-	-	-	62,080
Insurance receivables	83,070	-	-	-	-	83,070
Due from related parties	3,839	-	-	-	-	3,839
Cash and cash equivalents	<u>374,493</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,095</u>	<u>396,588</u>
<b>Total</b>	<u><u>672,515</u></u>	<u><u>569,636</u></u>	<u><u>921,982</u></u>	<u><u>3,677,635</u></u>	<u><u>1,442,536</u></u>	<u><u>7,284,304</u></u>
<b>Financial liabilities</b>						
Borrowings	-	-	-	419,949	-	419,949
Derivative financial instruments	80	101	-	-	-	181
Insurance and other liabilities	146,845	-	-	-	-	146,845
Due to related parties	<u>2,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,189</u>
<b>Total</b>	<u><u>149,114</u></u>	<u><u>101</u></u>	<u><u>-</u></u>	<u><u>419,949</u></u>	<u><u>-</u></u>	<u><u>569,164</u></u>



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) *Market risk*

(i) *Currency 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 and investment contracts.

The Group's financial assets and liabilities are primarily denominated in United States dollars and Hong Kong dollars, for which the exchange rates have remained stable for the periods ended 30 June 2016 and 31 December 2015.

At 30 June 2016, assets denominated in United States dollars and Hong Kong dollars accounted for 66% (December 2015: 67%) and 29% (December 2015: 28%) of the Group's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 43% (December 2015: 41%) and 53% (December 2015: 54%) of the Group's total liabilities, respectively. The Group has more United States dollar denominated assets than it has corresponding United States dollar denominated liabilities due to the much deeper pool of investment assets available in United States dollars. As a result, some of the United States dollar-denominated assets are used to back Hong Kong dollar denominated liabilities. This currency mismatch is then hedged, using forward currency contracts, to reduce the currency risk.

(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 and investment 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.

In the analysis, it is assumed that the discount rates for the liabilities with regard to insurance contracts remain unchanged.

US\$'000	Change in variables	Impact on shareholders' equity	
		30 June 2016	31 December 2015
Currency			
HKD	+25 basis points	(10,802)	(10,139)
HKD	-25 basis points	10,802	10,139
USD	+25 basis points	(106,233)	(82,963)
USD	-25 basis points	106,233	82,963

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2016

36. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) *Market risk (continued)*

(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 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	
	30 June 2016	31 December 2015
Change in equity prices -10%	(15,140)	(13,538)

37. EVENTS AFTER THE REPORTING PERIOD

On 29 July 2016, the Company allotted 34,565 ordinary shares to a shareholder in accordance with a share award plan.

On 3 August 2016, FWD Life Insurance Company (Bermuda) Limited ("FWD HK") and Sun Life Hong Kong Limited ("Sun Life") entered into an agreement for Sun Life to acquire FWD HK's MPF and ORSO businesses, including the pension trustee entity, FWD Pension Trust Limited. FWD HK and Sun Life will also enter into a 15-year strategic distribution agreement allowing FWD HK's tied agency to distribute Sun Life's MPF and ORSO products in the Hong Kong market. The transactions are expected to complete during 2017 and 2018 subject to obtaining the necessary regulatory approvals.

Audited Financial Statements

FWD Limited

(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2015



**EY** 安永

Building a better  
working world



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

安永會計師事務所  
香港中環添美道1號  
中信大廈22樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

**Independent Auditor's Report**  
**To the shareholders of FWD Limited**  
(Incorporated in the Cayman Islands with limited liability)

We have audited the accompanying consolidated financial statements of FWD Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 87, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, 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.

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

16 March 2016

FWD LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US\$'000

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
<b>REVENUE</b>			
Gross premiums	6(a)	1,421,921	1,168,069
Reinsurers' share of gross premiums	6(b)	(248,298)	(104,577)
Change in unearned premiums	6(c)	<u>(740)</u>	<u>(4,099)</u>
Net premiums		1,172,883	1,059,393
Fees and commission income	7	187,555	97,392
Investment return	8	169,528	195,173
Other operating revenue		<u>43</u>	<u>23</u>
<b>TOTAL REVENUE</b>		<u><b>1,530,009</b></u>	<u><b>1,351,981</b></u>
<b>BENEFITS, CLAIMS AND EXPENSES</b>			
Net benefits and claims	9	(1,317,251)	(1,147,796)
Amortization of intangible assets	14	(27,654)	(21,763)
Net deferred acquisition cost movement	15	165,571	143,059
Finance costs		(19,355)	(10,495)
Commission and commission related expenses	10	(198,082)	(156,985)
Other operating and administrative expenses	11	<u>(125,145)</u>	<u>(106,666)</u>
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>		<u><b>(1,521,916)</b></u>	<u><b>(1,300,646)</b></u>
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>8,093</b>	<b>51,335</b>
Income tax (expense)/credit	12(a)	<u>(8,776)</u>	<u>(9,752)</u>
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<u><u><b>(683)</b></u></u>	<u><u><b>41,583</b></u></u>

continued/...

FWD LIMITED

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

US\$'000

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
PROFIT/(LOSS) FOR THE YEAR		<u>(683)</u>	<u>41,583</u>
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	(54,796)	310,759
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8, 17.1	(23,885)	(30,231)
- impairment losses	8, 17.1	1,489	-
Income tax effect	12(b)	<u>19,573</u>	<u>(24,063)</u>
		(57,619)	256,465
Cash flow hedges:			
Effective portion of changes in fair value		-	(1,543)
Transfer from equity to statement of profit or loss		154	41
Income tax effect		<u>-</u>	<u>-</u>
		154	(1,502)
Exchange differences on translation of foreign operations			
		<u>74</u>	<u>(9)</u>
		74	(9)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		<u>(57,391)</u>	<u>254,954</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit obligation		-	(91)
Income tax effect	12(b)	<u>-</u>	<u>-</u>
		-	(91)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		<u>-</u>	<u>(91)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>(57,391)</u>	<u>254,863</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(58,074)</u>	<u>296,446</u>

FWD LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$'000

	Notes	31 December 2015	31 December 2014
<b>ASSETS</b>			
Goodwill	13	902,084	902,057
Intangible assets	14	599,244	626,817
Deferred acquisition cost	15	413,201	247,553
Plant and equipment	16	11,631	11,717
Financial assets			
Available-for-sale financial assets	17.1	5,391,990	4,692,900
Financial assets at fair value through profit or loss	17.2	1,200,810	1,187,951
Loans and receivables	17.3	139,266	134,886
Derivative financial instruments	17.4	6,661	3,512
Reinsurance assets	24	383,799	251,563
Prepayments, deposits and other assets	21	77,247	84,878
Deferred tax assets	12(b)	10,222	-
Insurance receivables	22	83,070	48,260
Due from related parties	31(b)	3,839	5,112
Cash and cash equivalents	23	396,588	457,746
<b>TOTAL ASSETS</b>		<u>9,619,652</u>	<u>8,654,952</u>
<b>LIABILITIES</b>			
Insurance contract liabilities	24	6,460,659	5,439,829
Investment contract liabilities	25	703,585	707,164
Due to related parties	31(b)	2,189	34,857
Deferred acquisition cost – Reinsurer's share	15	1,553	1,487
Borrowings	26	419,949	321,247
Derivative financial instruments	17.4	181	4,038
Deferred tax liabilities	12(b)	1,267	2,211
Insurance and other liabilities	27	146,845	213,386
<b>TOTAL LIABILITIES</b>		<u>7,736,228</u>	<u>6,724,219</u>
<b>EQUITY</b>			
Issued capital	28	268	211
Share premium	28	1,837,844	1,830,176
Capital redemption reserve	28	18,302	18,302
Share-based payment reserve	28	15,659	12,619
Legal reserve	28	1,562	1,562
Cash flow hedge reserve	28	(1,348)	(1,502)
Available-for-sale financial assets revaluation reserve	28	(31,380)	26,239
Defined benefit obligation revaluation reserve	28	-	492
Foreign currency translation reserve	28	105	31
Retained earnings/(accumulated losses)		42,412	42,603
<b>TOTAL EQUITY</b>		<u>1,883,424</u>	<u>1,930,733</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>9,619,652</u>	<u>8,654,952</u>

*Ronald Havel*

.....  
Director

*[Signature]*

.....  
Director

FWD LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$'000

	Note	Issued capital	Share premium	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/ losses/ (accumulated losses)	Total equity
1 January 2014		211	1,830,176	18,302	-	1,562	-	(230,226)	583	40	1,020	1,621,668
Change in share-based payment reserve	32	-	-	-	12,619	-	-	-	-	-	-	12,619
Total comprehensive income for the year		-	-	-	-	-	(1,502)	256,465	(91)	(9)	41,583	296,446
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	-	-
Change in foreign currency translation reserve		-	-	-	-	-	-	-	-	-	-	-
31 December 2014	28	211	1,830,176	18,302	12,619	1,562	(1,502)	26,239	492	31	42,603	1,930,733
Issuance of shares	28	57	7,668	-	(7,669)	-	-	-	-	-	-	56
Change in share-based payment reserve	32	-	-	-	10,709	-	-	-	-	-	-	10,709
Total comprehensive income for the year		-	-	-	-	-	154	(57,619)	-	74	(683)	(58,074)
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	-	-
Transfer from defined benefit obligation reserve		-	-	-	-	-	-	-	(492)	-	492	-
Change in foreign currency translation reserve		-	-	-	-	-	-	-	-	-	-	-
31 December 2015	28	268	1,837,844	18,302	15,659	1,562	(1,348)	(31,380)	-	105	42,412	1,883,424



FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US\$'000

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		8,093	51,335
Adjustments for:			
Dividend income	8	(27,509)	(18,018)
Interest income	8	(156,481)	(137,270)
Net realized (gain)/loss on disposal of financial assets	8	(26,264)	(35,797)
Fair value (gain)/loss on financial assets	8	39,190	(4,838)
Depreciation of plant and equipment	16	4,293	3,588
Loss on disposal of plant and equipment		23	42
Impairment on available-for-sale financial assets	8	1,489	-
Impairment/(Reversal of impairment) on secured loans	8	250	(121)
Finance cost		19,355	10,495
P&L impact of share-based payment	32	10,709	12,619
Amortization of intangible assets	14	27,654	21,763
DAC movement	15	(165,636)	(143,182)
Foreign exchange (gain)/loss		22	-
		<u>(264,812)</u>	<u>(239,384)</u>
(Increase)/decrease in reinsurance assets		(132,236)	(84,098)
(Increase)/decrease in prepayments, deposits and other assets		7,631	(21,676)
(Increase)/decrease in insurance receivables		(34,810)	16,535
(Increase)/decrease in amounts due from related parties		1,273	(1,329)
(Decrease)/increase in insurance contract liabilities		1,020,830	889,863
(Decrease)/increase in investment contract liabilities		(3,579)	66,459
(Decrease)/increase in amounts due to related parties		(32,668)	1,771
(Decrease)/increase in amounts DAC – reinsurer's share		65	123
(Decrease)/increase in insurance and other liabilities		<u>(64,510)</u>	<u>93,827</u>
Cash flows generated from operations		497,184	722,091
Dividend received from investments		27,779	17,312
Interest received		173,046	154,698
Investment expenses paid		(8,627)	(5,525)
Income tax paid		<u>(785)</u>	<u>(1,254)</u>
Net cash flows from operating activities		<u>688,597</u>	<u>887,322</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of intangible assets	14(b)	(67)	(41,064)
Purchases of plant and equipment	16	(4,246)	(10,825)
Proceeds from sales of plant and equipment		16	-
Purchases of financial assets		(3,073,933)	(1,941,500)
Purchases of cash flow hedge		-	(1,543)
Proceeds from disposal and maturities of financial assets		2,250,533	1,192,895
Decrease/(Increase) in pledged deposits		<u>(92)</u>	<u>(67)</u>
Net cash flows used in investing activities		<u>(827,789)</u>	<u>(802,104)</u>

continued/...

FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US\$'000

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of other equity instruments		56	-
Proceeds from bank loans		-	5,700
Proceeds of bond issuance		98,661	323,408
Bond issuance costs		(375)	(2,240)
Repayment of bank loans		-	(207,700)
Finance costs paid on bank loan and bond borrowings		<u>(20,400)</u>	<u>(10,375)</u>
Net cash flows from financing activities		<u>77,942</u>	<u>108,793</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(61,250)</u>	<u>194,011</u>
Cash and cash equivalents at beginning of the year		446,490	252,546
Effect of foreign exchange rate changes, net		-	(67)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23	<u><u>385,240</u></u>	<u><u>446,490</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		339,889	382,377
Non-pledged time deposits with original maturity of less than three months when acquired		<u>45,351</u>	<u>64,113</u>
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		<u><u>385,240</u></u>	<u><u>446,490</u></u>

31 December 2015

## 1. CORPORATE INFORMATION

FWD LIMITED (the "Company") was incorporated on 13 December 2012 in the Cayman Islands, with its registered office at Offshore Incorporations (Cayman) Limited, Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, 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, general insurance, and investment services.

In the opinion of the directors, PCGI Limited (formerly Jamison Limited), a company incorporated in the Cayman Islands, is the Company's immediate and ultimate holding company as at the end of the reporting period. PCGI Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 14.9% (2014:12.3%) shareholder of the Company.

The financial statements were approved and authorized for issuance by the board of directors on 16 March 2016.

## 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 2015 as described below.

- (a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2015 and have no material impact for the Group:

IAS 16 and IAS 38 Amendments	<i>Amendments to IAS 16 and IAS 38 – Proportionate restatement of accumulated depreciation and amortization for revaluation</i>
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i>
IAS 24 Amendments	<i>Amendments to IAS 24 Related Party Disclosures – Key management personnel</i>
IAS 40 Amendments	<i>Amendments to IAS 40 Investment Property – Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property</i>
IFRS 2 Amendments	<i>Amendments to IFRS 2 Share-based Payment– Definition of vesting condition</i>
IFRS 3 Amendments	<i>Amendments to IFRS 3 Business Combinations– Accounting for contingent consideration in a business combination and Scope exceptions for joint ventures Payment</i>
IFRS 8 Amendments	<i>Amendments to IFRS 8 Operating Segments– Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets.</i>
IFRS 13 Amendments	<i>Amendments to IFRS 13 Fair Value Measurement– Scope of portfolio exception and Short-term receivables and payables.</i>

31 December 2015

## 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 2015 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:

IAS 1 Amendments	<i>Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative<sup>1</sup></i>
IAS 16 and IAS 38 Amendments	<i>Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation<sup>1</sup></i>
IFRS 10 and IAS 28 Amendments	<i>Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
IFRS 10, IFRS 12 and IAS 28 Amendments	<i>Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception<sup>1</sup></i>
IFRS 11 Amendments	<i>Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations<sup>1</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of IFRSs issued in September 2014<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective date deferred in-definitely

(c) The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2015 and has not been early adopted (the financial year for which the adoption is required is stated).

IFRS 9	<i>Financial Instruments<sup>1</sup></i>
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<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

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

IFRS 9, issued in July 2014, replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. This version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatory for periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group has not early adopted the standard for these consolidated financial statements. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities.

31 December 2015

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2015. 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) the contractual arrangement 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.

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.

#### **Investments in associates**

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.

The Group's investments in associates 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 are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

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.

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.2 Basis of consolidation (continued)**

Investments in associates (continued)

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. The Group performs an annual impairment test of goodwill. 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.

31 December 2015

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts**Product classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract, while investment contracts are those contracts without significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Some insurance and investment 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 and investment 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. For investment contracts that do not contain DPF, IAS 39, *Financial Instruments: Measurement and Recognition*, and, if the contract includes an investment management element, IAS 18, *Revenue*, is applied. The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts.

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	Investment 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.	Insurance contract liabilities make provision for the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognized.	Not applicable
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 contract liabilities without DPF are measured at amortized cost.

31 December 2015

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

## Product classification (continued)

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
Universal life	Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer.	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.	All universal life contracts issued by the Group contain significant insurance risk.
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.	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value).

The basis of accounting for life insurance and investment contracts is further discussed in notes 2.3.1 and 2.3.2 below.

**2.3.1 Life insurance contracts and investment contracts with DPF***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, universal life and 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 and investment 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.



31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.1 Life insurance contracts and investment contracts with DPF (continued)**

*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 universal life and 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. For Universal life contracts, the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. For investment-linked contracts, the interest rate used is locked-in at policy inception. Deviations of actual results from estimated experience are reflected in earnings.

*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;
- they are explicitly identified in the contract on inception;
- they are incremental to amounts credited on similar contracts without sales inducements; and
- they are higher than the expected ongoing crediting rates for periods after the inducement.

*Options and guarantees*

Options and guarantees within insurance or investment contracts are treated as derivative financial instruments which are closely related to the host insurance or investment 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.

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.1 Life insurance contracts and investment contracts with DPF (continued)**

*Benefits and claims (continued)*

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.

Benefits paid for investment contracts with DPF are recognized in profit or loss in the year in which the claim is incurred and include claim handling costs.

*Life insurance contract liabilities (including liabilities in respect of investment contracts with DPF)*

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 universal life contracts, life insurance contract liabilities reflect the accumulation value, which represents 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 where applicable.

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.

*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.

For investment contracts, deferred acquisition costs and value of business acquired on purchased contracts, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, the unamortized balances of deferred acquisition costs and value of business acquired are written down.

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.2 Investment contracts without DPF**

*Investment contract fee revenue*

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognized as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognized as the service is provided.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are amortized and recognized as the services are provided.

*Deferred origination costs*

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortized over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

*Investment contract liabilities*

Deposits collected and benefit payments under investment contracts without DPF are not accounted for through profit or loss, but are accounted for directly through the statement of financial position as a movement in the investment contract liability.

The majority of the Group's contracts classified as investment contracts are investment-linked contracts, with measurement 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 under "Investment contract fee revenue" above.

Non investment-linked investment contract liabilities are carried at amortized cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front-end fees, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount.

The unearned revenue liability arising from investment 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. Any adjustment is immediately recognized as income or expense in the consolidated statement of profit or loss and other comprehensive income. The amortized cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.3 Insurance and investment contracts**

*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 or investment 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 and investment 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.

*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 or investment contract liabilities but are included under "Insurance and other liabilities" in the consolidated statement of financial position.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.4 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. The methods used are as follows:

Marine cargo business	25% method
Non-marine cargo business	365 days method

**2.3.5 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments**

**2.4.1 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments**

***2.4.2 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.3 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.



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.3 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.3 Subsequent measurement (continued)**

*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.

**2.4.4 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.

**2.4.5 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.6 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.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)****2.4.6 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.

**2.4.7 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.7 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.

**2.4.8 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.5 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.

**2.6 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 annually. 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.

**2.7 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.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.7 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	20-33 $\frac{1}{3}$ %
Computer equipment	20-33 $\frac{1}{3}$ %
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.

**2.8 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.

**2.9 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.9 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.

**2.10 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 first in first out ("FIFO") principle.



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.10 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.

**2.11 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.

*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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.12 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.13 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.

**2.14 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); or
  - (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).

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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. Hong Kong and Macau 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, 24 and 34.

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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 2.3.4, 24 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 and investment 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 universal life and 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) Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF 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 insurance and investment contract liabilities.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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 methodology to calculate the fair value of share awards. The method requires assumptions that may differ from actual results due to changes in performance and service conditions. Further details of share-based compensation are provided in notes 2.11 and 32.

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NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. EXCHANGE RATES

The Group's principal operations during the reporting years are Hong Kong and Macau. 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 2015	Year ended 31 December 2014
Hong Kong	7.752	7.755
Macau	7.985	7.968

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rate	
	31 December 2015	31 December 2014
Hong Kong	7.750	7.756
Macau	7.983	7.987

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 5. SEGMENT INFORMATION

The reportable segments of the Group correspond to its principal subsidiary legal entities representing the life insurance business and the general insurance business, as follows:

- The life insurance segment provides life insurance products and services to customers in Hong Kong and Macau. Life insurance is the Group's largest business line and comprises traditional participating life insurance products, traditional non-participating life insurance products, accident and health insurance non-participating products, investment-linked insurance products and universal life insurance products.
- The general insurance segment provides a range of general insurance products for individuals and commercial institutions in Hong Kong, including health and medical care insurance, motor insurance, property insurance and marine insurance.

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 2015			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	1,135,744	37,139	-	1,172,883
Fees and commission income	173,293	7,567	6,695	187,555
Investment return	164,970	2,246	2,312	169,528
Other operating revenue	45	-	(2)	43
<b>TOTAL REVENUE</b>	<b>1,474,052</b>	<b>46,952</b>	<b>9,005</b>	<b>1,530,009</b>
Net benefits and claims	(1,295,620)	(21,631)	-	(1,317,251)
Amortization of intangible assets	(27,654)	-	-	(27,654)
Net deferred acquisition cost movement	165,974	(403)	-	165,571
Finance costs	-	-	(19,355)	(19,355)
Commission and commission related expenses	(180,628)	(15,157)	(2,297)	(198,082)
Other operating and administrative expenses	(101,704)	(8,560)	(14,881)	(125,145)
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>	<b>(1,439,632)</b>	<b>(45,751)</b>	<b>(36,533)</b>	<b>(1,521,916)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>34,420</b>	<b>1,201</b>	<b>(27,528)</b>	<b>8,093</b>
Income tax expense	(8,431)	(38)	(307)	(8,776)
<b>NET PROFIT/(LOSS)</b>	<b>25,989</b>	<b>1,163</b>	<b>(27,835)</b>	<b>(683)</b>
OTHER COMPREHENSIVE INCOME, NET OF TAX	(57,623)	148	84	(57,391)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(31,634)</b>	<b>1,311</b>	<b>(27,751)</b>	<b>(58,074)</b>
	31 December 2015			
TOTAL ASSETS	9,446,811	126,230	46,611	9,619,652
TOTAL LIABILITIES	7,243,504	69,060	423,664	7,736,228
TOTAL EQUITY	2,203,307	57,170	(377,053)	1,883,424

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NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. SEGMENT INFORMATION (continued)

US\$'000

	Year ended			Total
	31 December 2014			
	Life Insurance	General Insurance	Corporate and Others	
Net premiums	1,010,694	49,165	(466)	1,059,393
Fees and commission income	90,862	3,679	2,851	97,392
Investment return	192,454	2,124	595	195,173
Other operating revenue	4	-	19	23
<b>TOTAL REVENUE</b>	<b>1,294,014</b>	<b>54,968</b>	<b>2,999</b>	<b>1,351,981</b>
Net benefits and claims	(1,120,324)	(27,473)	1	(1,147,796)
Amortization of intangible assets	(21,677)	(86)	-	(21,763)
Net deferred acquisition cost movement	142,902	157	-	143,059
Finance costs	-	-	(10,495)	(10,495)
Commission and commission related expenses	(141,317)	(15,400)	(268)	(156,985)
Other operating and administrative expenses	(85,442)	(7,195)	(14,029)	(106,666)
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>	<b>(1,225,858)</b>	<b>(49,997)</b>	<b>(24,791)</b>	<b>(1,300,646)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>68,156</b>	<b>4,971</b>	<b>(21,792)</b>	<b>51,335</b>
Income tax expense	(9,761)	321	(312)	(9,752)
<b>NET PROFIT/(LOSS)</b>	<b>58,395</b>	<b>5,292</b>	<b>(22,104)</b>	<b>41,583</b>
OTHER COMPREHENSIVE INCOME, NET OF TAX	254,018	2,121	(1,276)	254,863
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>312,413</b>	<b>7,413</b>	<b>(23,380)</b>	<b>296,446</b>
	31 December 2014			
TOTAL ASSETS	8,450,100	124,037	80,815	8,654,952
TOTAL LIABILITIES	6,339,568	63,132	321,519	6,724,219
TOTAL EQUITY	2,110,532	60,905	(240,704)	1,930,733

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

6. NET PREMIUMS

US\$'000	Notes	Year ended 31 December 2015	Year ended 31 December 2014
(a) Gross premiums			
Life insurance contracts		1,315,574	1,078,163
Non-life insurance contracts		64,008	61,439
Investment contracts with DPF		<u>42,339</u>	<u>28,467</u>
Total gross premiums		<u>1,421,921</u>	<u>1,168,069</u>
(b) Reinsurers' share of gross premiums			
Life insurance contracts		(222,169)	(96,402)
Non-life insurance contracts	24	(26,129)	(8,175)
Investment contracts with DPF		-	-
Total reinsurers' share of gross premiums		<u>(248,298)</u>	<u>(104,577)</u>
(c) Change in unearned premiums			
Non-life insurance contracts		(740)	(4,099)

7. FEES AND COMMISSION INCOME

US\$'000	Year ended 31 December 2015	Year ended 31 December 2014
Policyholder administration service fees and surrender charges		
Insurance contracts	96,761	80,196
Investment contracts	5,016	4,750
Reinsurance commission income	75,665	3,679
Commission income	<u>10,113</u>	<u>8,767</u>
	<u>187,555</u>	<u>97,392</u>

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NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. INVESTMENT RETURN

US\$'000	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	156,481	137,270
Dividend income	<u>27,509</u>	<u>18,018</u>
Investment income	183,990	155,288
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	29,589	34,347
Financial assets designated at fair value through profit or loss	4,579	7,827
Derivative financial instruments	4,692	179
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(5,704)	(4,116)
Financial assets designated at fair value through profit or loss	(2,002)	(1,169)
Derivative financial instruments	<u>(4,890)</u>	<u>(1,271)</u>
Net realized gains/(losses) on financial assets	26,264	35,797
Fair value gains/(losses) on derivative financial instruments	7,006	910
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	<u>(46,196)</u>	<u>3,928</u>
Net fair value gains/(losses) on financial assets	(39,190)	4,838
(Impairment)/Reversal of impairment of available-for-sale financial assets	(1,489)	-
(Impairment)/Reversal of impairment on secured loans	(250)	121
Foreign exchange difference	<u>203</u>	<u>(871)</u>
Total investment return	<u><u>169,528</u></u>	<u><u>195,173</u></u>

The impairment or reversal of impairment of available-for-sale financial assets and secured loans are in the life insurance segment.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

9. NET BENEFITS AND CLAIMS INCURRED

US\$'000	Year ended 31 December 2015	Year ended 31 December 2014
<b>(a) Gross benefits and claims paid</b>		
Life insurance contract benefits and claims paid		
With DPF	254,489	237,237
Without DPF	<u>224,850</u>	<u>91,502</u>
Total life insurance contract benefits and claims paid	479,339	328,739
Non-life insurance contract benefits and claims paid	30,008	24,818
Investment contracts with DPF benefits and claims paid	<u>21,900</u>	<u>43,702</u>
Total gross benefits and claims paid	<u><u>531,247</u></u>	<u><u>397,259</u></u>
<b>(b) Reinsurers' share of gross benefits and claims paid</b>		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(5,975)	(3,838)
Without DPF	<u>(2,335)</u>	<u>(807)</u>
Total reinsurers' share of life insurance contract benefits and claims paid	(8,310)	(4,645)
Reinsurers' share of non-life insurance contract benefits and claims paid	<u>(15,304)</u>	<u>(1,288)</u>
Total reinsurers' share of benefits and claims paid	<u><u>(23,614)</u></u>	<u><u>(5,933)</u></u>
<b>(c) Gross change in contract liabilities</b>		
Change in life insurance contract liabilities		
With DPF	1,023,552	777,034
Without DPF	<u>(117,553)</u>	<u>69,450</u>
Total change in life insurance contract liabilities	905,999	846,484
Change in non-life insurance contracts liabilities	8,332	3,971
Change in investment contract liabilities with DPF	<u>27,331</u>	<u>(9,903)</u>
Total gross change in contract liabilities	<u><u>941,662</u></u>	<u><u>840,552</u></u>
<b>(d) Reinsurer's share of gross change in contract liabilities</b>		
Reinsurer's share of change in life insurance contract liabilities		
With DPF	-	-
Without DPF	<u>(130,638)</u>	<u>(84,060)</u>
Reinsurers' share of change in non-life insurance contracts liabilities	<u>(1,406)</u>	<u>(22)</u>
Total reinsurers' share of gross change in contract liabilities	<u><u>(132,044)</u></u>	<u><u>(84,082)</u></u>
<b>Total net benefits and claims</b>	<u><u>1,317,251</u></u>	<u><u>1,147,796</u></u>

The total interest expense of the investment contract liabilities with DPF was US\$5,763,000 (2014:US\$5,464,000).

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10. COMMISSION AND COMMISSION RELATED EXPENSES

US\$'000	Year ended 31 December 2015	Year ended 31 December 2014
Commission expenses	120,980	100,467
Commission related expenses	<u>77,102</u>	<u>56,518</u>
	<u>198,082</u>	<u>156,985</u>

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US\$'000	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Advertising and marketing expenses		15,282	12,651
Auditor's remuneration		902	951
Bank charges and other professional service fees		10,801	7,437
Depreciation and amortization	16	4,293	3,588
Employee benefit expenses			
Salaries and allowances		45,828	38,069
Share-based payment expenses	32	10,709	12,619
Pension contribution		2,093	1,516
Other staff costs		3,398	2,811
Group management fee		3,848	3,593
Office related expenses		4,434	4,417
Operating leases rental		11,631	11,226
Others		9,157	7,853
Foreign exchange differences, net		2,769	(65)
Total		<u>125,145</u>	<u>106,666</u>

## NOTES TO FINANCIAL STATEMENTS

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## 12. TAXATION

## a) Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

US\$'000	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Current – Hong Kong			
Charge for the year		(369)	(132)
(Under-provision)/Over-provision in prior years		-	(848)
Current – Elsewhere		-	-
Deferred	12(b)	<u>(8,407)</u>	<u>(8,772)</u>
		<u>(8,776)</u>	<u>(9,752)</u>

A reconciliation of the tax credit/expense applicable to profit/(loss) before tax at the statutory rate 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 2015	%
Profit before tax	<u>8,093</u>	
Tax at the statutory tax rate	(1,336)	(16.5)
Income not subject to tax	2,892	35.7
Intangible asset amortization not subject to tax	(2,178)	(26.9)
Expenses not deductible for tax	(615)	(7.6)
Tax losses not recognized	(2,861)	(35.3)
Temporary difference not recognized	(4,393)	(54.3)
Others	(285)	(3.5)
	<u>(8,776)</u>	<u>(108.4)</u>

US\$'000	Year ended 31 December 2014	%
Profit before tax	<u>51,335</u>	
Tax at the statutory tax rate	(8,470)	(16.5)
Income not subject to tax	5,312	10.3
Intangible asset amortization not subject to tax	(2,571)	(5.0)
Expenses not deductible for tax	(1,611)	(3.1)
Tax losses not recognized	(2,366)	(4.6)
Temporary difference not recognized	829	1.6
Adjustment in respect of current tax of previous periods	(848)	(1.6)
Others	(27)	(0.1)
	<u>(9,752)</u>	<u>(19.0)</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 12. TAXATION (continued)

## b) Deferred Tax

The movement in deferred tax assets/(liabilities) during the year is as follows:

US\$'000			Insurance contract liabilities	Deferred acquisition cost	Revaluation of available- for-sale financial assets	Tax losses and other temporary differences	Total
	Notes						
1 January 2015			2,537	(39,382)	(36,648)	71,282	(2,211)
Deferred tax credited/(charged) to profit or loss	12(a)		20,336	(27,045)	-	(1,698)	(8,407)
Deferred tax credited/(charged) to other comprehensive Income			-	-	19,573		19,573
Foreign exchange difference			-	(1)	-	1	-
31 December 2015			<u>22,873</u>	<u>(66,428)</u>	<u>(17,075)</u>	<u>69,585</u>	<u>8,955</u>

US\$'000			Insurance contract liabilities	Deferred acquisition cost	Revaluation of available- for-sale financial assets	Tax losses and other temporary differences	Total
	Notes						
1 January 2014			38,586	(17,057)	(12,195)	21,222	30,556
Deferred tax credited/(charged) to profit or loss	12(a)		(35,901)	(23,357)	-	50,486	(8,772)
Deferred tax credited/(charged) to other comprehensive Income			-	-	(24,063)	-	(24,063)
Foreign exchange difference			(148)	1,032	(390)	(426)	68
31 December 2014			<u>2,537</u>	<u>(39,382)</u>	<u>(36,648)</u>	<u>71,282</u>	<u>(2,211)</u>

In 2015, the positive balance shown above of US\$8,955,000 represents deferred tax assets of US\$10,222,000 and deferred tax liabilities of US\$1,267,000. In 2014, the negative balances shown above represent deferred tax liabilities which offset deferred tax assets 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 of US\$17,492,000(2014: US\$17,331,000) that are available indefinitely for offsetting against taxable profits from one of its subsidiaries in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as it is not considered probable that taxable profits will be available against which these tax losses can be utilized in the foreseeable future.

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NOTES TO FINANCIAL STATEMENTS

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13. GOODWILL

US\$'000

	31 December 2015	31 December 2014
At beginning of year		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	-	-
Net carrying amount	<u>902,057</u>	<u>902,057</u>
Movement during the year		
Cost at beginning of year, net of accumulated impairment	902,057	902,057
Impairment provided during the year	-	-
Foreign exchange difference	<u>27</u>	-
Net carrying amount	<u>902,084</u>	<u>902,057</u>
At end of year		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	<u>27</u>	-
Net carrying amount	<u><u>902,084</u></u>	<u><u>902,057</u></u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 13. GOODWILL (continued)

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

- FWD Life Insurance Company (Bermuda) Limited
- FWD Life Insurance Company (Macau) Limited

The recoverable amounts of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited have 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. No impairment loss has been recognized during the year as impairment test is passed at Level III for the FWD Life Insurance Company (Bermuda) and FWD Life Insurance Company (Macau) Limited.

The key assumptions used for the value in use impairment calculation of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited are:

- Risk discount rate of 7.5% (2014: 8.5%) which is in line with industry average
- Investment return assumptions of 3.78% (2014: 4.51%) and 3.44% (2014: 4.72%) for in-force traditional life business and in-force universal life business, respectively, progressively increasing to 4.79% (2014:5.35%) and 5.06% (2014:5.35%) as the ultimate investment return assumption. For new business, investment return assumptions of 4.79% and 5.06% were used for traditional life and universal life business, respectively (2014:4.72% increasing to ultimate 5.35%). The investment return assumption for the separate account is 5.65% (2014: 6.56%).
- A VNB multiplier calculated using projected new sales over the next 15 years (2014: 15 years) at a discount rate of 7.5% (2014: 8.5%).

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 rates beyond five years progressively decrease from 5% to 3%. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

*Sensitivity to changes in assumptions*

For the risk discount rate assumption, a 272bps (2014:157bps) 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 value in use of the cash generating unit to exceed the carrying amount by US\$537.3m (2014: US\$129.6m).

For the investment return assumption, a 138bps (2014: 66bps) reduction would give a value in use equal to the carrying amount of the cash generating unit. A 50bps reduction in the investment return assumption would cause the value in use of the cash generating unit to exceed the carrying amount by US\$477.9m (2014: US\$87.2m).

For the VNB multiplier assumption, a reduction of the VNB multiplier by approximately 8.7 years (2014: 5.5 years) would give a value in use equal to the carrying amount of the cash generating unit.

The Group recognizes the fact that an unfavorable change in any of these assumptions could materially affect the recoverability of goodwill.

FWD LIMITED

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14. INTANGIBLE ASSETS

US\$'000	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Value of business acquired	14(a)	578,057	591,360
Other intangible assets	14(b)	21,187	35,457
		<u>599,244</u>	<u>626,817</u>

(a) Value of business acquired

US\$'000	31 December 2015	31 December 2014
At beginning of year	591,360	591,394
Effecting of regrouping	-	16,118
Amortization during the year	(13,317)	(16,156)
Foreign exchange difference	14	4
At end of year	<u>578,057</u>	<u>591,360</u>

In 2014, it was noted that certain limited payment products were grouped as insurance contracts while certain other regular payment products were grouped as investment contracts. The effect of regrouping these products is to increase insurance contract liabilities by US\$16,118,000 and increase VOBA by US\$16,118,000, with no impact to the statement of comprehensive income.

(b) Other intangible assets

US\$'000	31 December 2015	31 December 2014
At beginning of year	35,457	-
Additions	67	41,064
Amortization during the year	(14,337)	(5,607)
Foreign exchange difference	-	-
At end of year	<u>21,187</u>	<u>35,457</u>

The intangible assets represent retention fees paid to agents under a retention program launched in 2014.

15. DEFERRED ACQUISITION COST

US\$'000	31 December 2015		
	Gross	Reinsurers' share	Net
At beginning of year	247,553	(1,487)	246,066
Expenses deferred	203,177	(65)	203,112
Amortization during the year	(37,541)	-	(37,541)
Foreign exchange difference	12	(1)	11
At end of year	<u>413,201</u>	<u>(1,553)</u>	<u>411,648</u>

US\$'000	31 December 2014		
	Gross	Reinsurers' share	Net
At beginning of year	104,384	(1,364)	103,020
Expenses deferred	158,033	(123)	157,910
Amortization during the year	(14,851)	-	(14,851)
Foreign exchange difference	(13)	-	(13)
At end of year	<u>247,553</u>	<u>(1,487)</u>	<u>246,066</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 16. PLANT AND EQUIPMENT

US\$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
<b>31 December 2015</b>					
31 December 2014:					
Cost	10,462	208	1,561	5,308	17,539
Accumulated depreciation	<u>(3,782)</u>	<u>(87)</u>	<u>(271)</u>	<u>(1,682)</u>	<u>(5,822)</u>
Net carrying amount	<u>6,680</u>	<u>121</u>	<u>1,290</u>	<u>3,626</u>	<u>11,717</u>
31 December 2014, net of accumulated depreciation	6,680	121	1,290	3,626	11,717
Additions	981	88	200	2,977	4,246
Disposals	-	(39)	-	-	(39)
Depreciation provided during the year	(2,056)	(45)	(349)	(1,843)	(4,293)
Foreign exchange difference	-	-	-	-	-
31 December 2015, net of accumulated depreciation	<u>5,605</u>	<u>125</u>	<u>1,141</u>	<u>4,760</u>	<u>11,631</u>
31 December 2015:					
Cost	11,333	150	1,761	8,273	21,517
Accumulated depreciation	<u>(5,728)</u>	<u>(25)</u>	<u>(620)</u>	<u>(3,513)</u>	<u>(9,886)</u>
Net carrying amount	<u>5,605</u>	<u>125</u>	<u>1,141</u>	<u>4,760</u>	<u>11,631</u>
<b>31 December 2014</b>					
31 December 2013:					
Cost	4,368	208	606	1,723	6,905
Accumulated depreciation	<u>(1,418)</u>	<u>(39)</u>	<u>(135)</u>	<u>(791)</u>	<u>(2,383)</u>
Net carrying amount	<u>2,950</u>	<u>169</u>	<u>471</u>	<u>932</u>	<u>4,522</u>
31 December 2013, net of accumulated depreciation	2,950	169	471	932	4,522
Additions	6,094	-	1,116	3,615	10,825
Disposals	-	-	(36)	(6)	(42)
Depreciation provided during the year	(2,364)	(48)	(261)	(915)	(3,588)
Foreign exchange difference	-	-	-	-	-
31 December 2014, net of accumulated depreciation	<u>6,680</u>	<u>121</u>	<u>1,290</u>	<u>3,626</u>	<u>11,717</u>
31 December 2014:					
Cost	10,462	208	1,561	5,308	17,539
Accumulated depreciation	<u>(3,782)</u>	<u>(87)</u>	<u>(271)</u>	<u>(1,682)</u>	<u>(5,822)</u>
Net carrying amount	<u>6,680</u>	<u>121</u>	<u>1,290</u>	<u>3,626</u>	<u>11,717</u>

NOTES TO FINANCIAL STATEMENTS

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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 year. 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

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## 17. FINANCIAL ASSETS (continued)

## 17.1 Available-for-sale financial assets

**Debt securities**

US\$'000

31 December 2015

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
<b>Government bonds - issued in local currency</b>						
Hong Kong	AAA	-	22,955	275	12,414	35,644
United States	AA	109,137	419,672	-	350,679	879,488
Sub-total		<u>109,137</u>	<u>442,627</u>	<u>275</u>	<u>363,093</u>	<u>915,132</u>
<b>Government bonds - issued in foreign currency</b>						
South Korea	A	11,580	3,201	-	1,048	15,829
Qatar	AA	3,050	13,388	-	1,888	18,326
Netherlands	AA	7,374	4,150	-	1,397	12,921
China	AA	4,935	8,641	-	1,058	14,634
United Arab Emirates	AA	4,641	-	-	-	4,641
Cayman Islands	AA	6,504	6,104	-	2,467	15,075
Singapore	AAA	600	13,821	-	1,673	16,094
Finland	AA	-	-	-	298	298
Canada	AAA	-	-	-	299	299
Sub-total		<u>38,684</u>	<u>49,305</u>	<u>-</u>	<u>10,128</u>	<u>98,117</u>
<b>Government agency bonds<sup>(1)</sup></b>						
AAA		-	-	-	1,810	1,810
AA		-	-	-	1,361	1,361
Sub-total		<u>-</u>	<u>-</u>	<u>-</u>	<u>3,171</u>	<u>3,171</u>
<b>Corporate bonds</b>						
AAA		16,531	27,914	567	7,578	52,590
AA		236,623	404,775	6,839	54,792	703,029
A		971,747	910,353	2,736	110,881	1,995,717
BBB		562,721	536,593	6,527	36,862	1,142,703
Below investment grade		6,229	10,980	-	6,629	23,838
Not rated		-	-	-	640	640
Sub-total		<u>1,793,851</u>	<u>1,890,615</u>	<u>16,669</u>	<u>217,382</u>	<u>3,918,517</u>
<b>Structured securities<sup>(2)</sup></b>						
AAA		-	-	-	-	-
Sub-total		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

(2) Structured securities include collateralized debt obligations, mortgage-backed securities and other asset-backed securities.

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17. FINANCIAL ASSETS (continued)

**17.1 Available-for-sale financial assets (continued)**

**Equity securities**

US\$'000

31 December 2015

	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Equity shares - Listed	-	61,170	-	68,755	129,925
Equity shares - Unlisted	49,568	54,787	-	7,669	112,024
Interest in investment funds	163,020	25,971	-	-	188,991
Sub-total	<u>212,588</u>	<u>141,928</u>	<u>-</u>	<u>76,424</u>	<u>430,940</u>
<b><u>Others</u></b>					
Certificate of deposits	-	-	-	25,872	25,872
Others	-	80	-	161	241
Sub-total	<u>-</u>	<u>80</u>	<u>-</u>	<u>26,033</u>	<u>26,113</u>
<b>Total Available-for-sale financial assets</b>	<u><u>2,154,260</u></u>	<u><u>2,524,555</u></u>	<u><u>16,944</u></u>	<u><u>696,231</u></u>	<u><u>5,391,990</u></u>

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## 17. FINANCIAL ASSETS (continued)

## 17.1 Available-for-sale financial assets (continued)

**Debt securities**

US\$'000

31 December 2014

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
<b>Government bonds</b>						
<b>- issued in local currency</b>						
Hong Kong	AAA	-	25,679	283	10,723	36,685
United States	AA	460,637	479,131	-	259,628	1,199,396
Sub-total		460,637	504,810	283	270,351	1,236,081
<b>Government bonds</b>						
<b>- issued in foreign currency</b>						
South Korea	A	11,760	45,901	-	-	57,661
Qatar	AA	3,095	22,638	-	1,093	26,826
Netherlands	AA	7,604	5,086	-	574	13,264
China	AA	4,905	10,088	-	653	15,646
United Arab Emirates	AA	4,803	-	-	-	4,803
Cayman Islands	AA	6,634	6,491	-	2,288	15,413
Singapore	AAA	1,662	24,030	-	-	25,692
Sub-total		40,463	114,234	-	4,608	159,305
<b>Government agency bonds<sup>(1)</sup></b>						
AAA		-	-	-	2,416	2,416
AA		-	8,224	-	2,886	11,110
Sub-total		-	8,224	-	5,302	13,526
<b>Corporate bonds</b>						
AAA		21,347	66,509	564	2,908	91,328
AA		151,091	476,746	13,066	21,963	662,866
A		603,027	1,019,283	10,584	33,424	1,666,318
BBB		338,263	254,603	3,950	2,395	599,211
Below investment grade		16,110	10,883	-	1,050	28,043
Sub-total		1,129,838	1,828,024	28,164	61,740	3,047,766
<b>Structured securities<sup>(2)</sup></b>						
AAA		1,527	-	-	-	1,527
Sub-total		1,527	-	-	-	1,527

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

(2) Structured securities include collateralized debt obligations, mortgage-backed securities and other asset-backed securities.

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 17. FINANCIAL ASSETS (continued)

**17.1 Available-for-sale financial assets (continued)****Equity securities**

US\$'000

31 December 2014

	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Equity shares - Listed	-	58,418	-	71,051	129,469
Equity shares - Unlisted	-	44,911	-	10,744	55,655
Interest in investment funds	-	26,751	-	-	26,751
Sub-total	-	<u>130,080</u>	-	<u>81,795</u>	<u>211,875</u>
<b><u>Others</u></b>					
Certificate of deposits	-	-	-	22,594	22,594
Others	-	80	-	146	226
Sub-total	-	<u>80</u>	-	<u>22,740</u>	<u>22,820</u>
<b>Total Available-for-sale financial assets</b>	<u>1,632,465</u>	<u>2,585,452</u>	<u>28,447</u>	<u>446,536</u>	<u>4,692,900</u>

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\$54,796,000 (2014: an increase of US\$310,759,000). Net realized gains of US\$23,885,000 (2014: net realized gains of US\$30,231,000) with impairment loss of US\$1,489,000 (2014: Nil) were reclassified from other comprehensive income to profit or loss.

Bonds of US\$135,126,000 (December 2014: US\$117,149,000) were used to guarantee the insurance reserves at 31 December 2015 as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.



## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 17. FINANCIAL ASSETS (continued)

**17.2 Financial assets at fair value through profit or loss****Debt securities**

US\$'000

31 December 2015

		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
<b>Government bonds</b>				
<b>- issued in local currency</b>				
Hong Kong	AAA	9,915	-	9,915
Sub-total		<u>9,915</u>	<u>-</u>	<u>9,915</u>
<b>Government bonds</b>				
<b>- issued in foreign currency</b>				
South Korea	A	1,724	-	1,724
Qatar	AA	571	-	571
China	AA	1,314	-	1,314
Cayman Islands	AA	969	-	969
Singapore	AAA	-	-	-
Sub-total		<u>4,578</u>	<u>-</u>	<u>4,578</u>
<b>Government agency bonds<sup>(1)</sup></b>				
AAA		1,557	-	1,557
AA		-	-	-
Sub-total		<u>1,557</u>	<u>-</u>	<u>1,557</u>
<b>Corporate bonds</b>				
AAA		15,007	-	15,007
AA		116,747	-	116,747
A		123,621	-	123,621
BBB		3,150	-	3,150
Below investment grade		-	-	-
Sub-total		<u>258,525</u>	<u>-</u>	<u>258,525</u>

(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 2015

		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
Equity shares - Listed		44,398	-	44,398
Equity shares - Unlisted		15,050	-	15,050
Interest in investment funds		-	866,787	866,787
Sub-total		<u>59,448</u>	<u>866,787</u>	<u>926,235</u>

**Others**

US\$'000

31 December 2015

		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
Certificate of deposits		-	-	-
<b>Total financial assets at fair value through profit or loss</b>		<u>334,023</u>	<u>866,787</u>	<u>1,200,810</u>

All financial assets at fair value through profit or loss at 31 December 2015 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. FINANCIAL ASSETS (continued)

**17.2 Financial assets at fair value through profit or loss (continued)**

**Debt securities**

US\$'000				
31 December 2014				
		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
<b>Government bonds</b>				
<b>- issued in local currency</b>				
Hong Kong	AAA	9,758	-	9,758
Sub-total		<u>9,758</u>	<u>-</u>	<u>9,758</u>
<b>Government bonds</b>				
<b>- issued in foreign currency</b>				
South Korea	A	2,363	-	2,363
Qatar	AA	573	-	573
China	AA	1,305	-	1,305
Cayman Islands	AA	990	-	990
Sub-total		<u>5,231</u>	<u>-</u>	<u>5,231</u>
<b>Government agency bonds<sup>(1)</sup></b>				
AAA		1,597	-	1,597
AA		2,368	-	2,368
Sub-total		<u>3,965</u>	<u>-</u>	<u>3,965</u>
<b>Corporate bonds</b>				
AAA		18,842	-	18,842
AA		88,074	-	88,074
A		128,760	-	128,760
BBB		406	-	406
Below investment grade		3,528	-	3,528
Sub-total		<u>239,610</u>	<u>-</u>	<u>239,610</u>

(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 2014				
		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
Equity shares - Listed		40,986	-	40,986
Equity shares - Unlisted		19,364	-	19,364
Interest in investment funds		-	869,037	869,037
Sub-total		<u>60,350</u>	<u>869,037</u>	<u>929,387</u>

**Others**

US\$'000				
31 December 2014				
		<u>Policyholder and shareholder</u>	<u>Investment-Linked</u>	<u>Total</u>
		Deposit administration		
Certificate of deposits		-	-	-
<b>Total financial assets at fair value through profit or loss</b>		<u>318,914</u>	<u>869,037</u>	<u>1,187,951</u>

All financial assets at fair value through profit or loss at 31 December 2014 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 17. FINANCIAL ASSETS (continued)

**17.3 Loans and receivables**

US\$'000	31 December 2015	31 December 2014
Policy loans	63,617	61,792
Secured loans	15,529	15,725
Accreting deposits	60,712	57,711
Provision for impairment	(592)	(342)
At end of year	<u>139,266</u>	<u>134,886</u>

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 9% (2014: 9%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses.

The movements in provision for impairment of secured loans are as follows:

US\$'000	31 December 2015	31 December 2014
At beginning of year	(342)	(463)
(Impairment)/Reversal of impairment charged for the year	<u>(250)</u>	<u>121</u>
At end of year	<u>(592)</u>	<u>(342)</u>

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquent in repayment. The gross amount of the loans was US\$15,529,000 (2014: US\$15,725,000) with a carrying amount of US\$14,937,000 (2014: US\$15,383,000).

Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate their fair values.

**17.4 Derivative financial investments**

The Group had the following derivative financial instruments outstanding as at the end of the reporting year.

US\$'000	<u>Contract/notional Amount</u>	<u>Carrying Amount</u> Assets	<u>Carrying Amount</u> Liabilities
31 December 2015	<u>1,890,319</u>	<u>6,661</u>	<u>181</u>
31 December 2014	<u>1,055,600</u>	<u>3,512</u>	<u>4,038</u>

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 and foreign exchange forwards, 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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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 2015

Financial assets

US\$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	26,113	139,266	165,379
Debt securities	274,575	4,934,937	-	5,209,512
Equity securities	926,235	430,940	-	1,357,175
Derivative financial instruments	6,661	-	-	6,661
Deposits and other assets	-	-	62,080	62,080
Insurance receivables	-	-	83,070	83,070
Due from related parties	-	-	3,839	3,839
Cash and cash equivalents	-	-	396,588	396,588
	<u>1,207,471</u>	<u>5,391,990</u>	<u>684,843</u>	<u>7,484,304</u>

Financial liabilities

US\$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	703,585	-	703,585
Due to related parties	-	2,189	2,189
Borrowings	-	419,949	419,949
Derivative financial instruments	181	-	181
Insurance and other liabilities	-	146,845	146,845
	<u>703,766</u>	<u>568,983</u>	<u>1,272,749</u>

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NOTES TO FINANCIAL STATEMENTS

31 December 2015

18. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2014

Financial assets

US\$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	22,820	134,886	157,706
Debt securities	258,564	4,458,205	-	4,716,769
Equity securities	929,387	211,875	-	1,141,262
Derivative financial instruments	3,512	-	-	3,512
Deposits and other assets	-	-	74,683	74,683
Insurance receivables	-	-	48,260	48,260
Due from related parties	-	-	5,112	5,112
Cash and cash equivalents	-	-	457,746	457,746
	<u>1,191,463</u>	<u>4,692,900</u>	<u>720,687</u>	<u>6,605,050</u>

Financial liabilities

US\$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	707,164	-	707,164
Borrowings	-	321,247	321,247
Due to related parties	-	34,857	34,857
Derivative financial instruments	4,038	-	4,038
Insurance and other liabilities	-	213,386	213,386
	<u>711,202</u>	<u>569,490</u>	<u>1,280,692</u>

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for borrowings which have a fair value of US\$438,638,000 (2014: US\$335,465,000).

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 19. FAIR VALUE 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 2015 and 31 December 2014, 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.

## 20. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

31 December 2015

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale financial assets	17.1	1,177,273	4,102,655	112,062	5,391,990
Financial assets at fair value through profit or loss	17.2	911,856	273,904	15,050	1,200,810
Derivative financial instruments	17.4	-	6,661	-	6,661
		<u>2,089,129</u>	<u>4,383,220</u>	<u>127,112</u>	<u>6,599,461</u>

31 December 2014

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale financial assets	17.1	1,342,310	3,294,897	55,693	4,692,900
Financial assets at fair value through profit or loss	17.2	910,699	257,888	19,364	1,187,951
Derivative financial instruments	17.4	-	3,512	-	3,512
		<u>2,253,009</u>	<u>3,556,297</u>	<u>75,057</u>	<u>5,884,363</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 20. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

31 December 2015

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Derivative financial instruments	17.4	-	181	-	181
		<u>-</u>	<u>181</u>	<u>-</u>	<u>181</u>

31 December 2014

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Derivative financial instruments	17.4	-	4,038	-	4,038
		<u>-</u>	<u>4,038</u>	<u>-</u>	<u>4,038</u>

Liabilities for which fair values are disclosed:

31 December 2015

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Borrowings	18	339,550	99,088	-	438,638
		<u>339,550</u>	<u>99,088</u>	<u>-</u>	<u>438,638</u>

31 December 2014

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Borrowings	18	335,465	-	-	335,465
		<u>335,465</u>	<u>-</u>	<u>-</u>	<u>335,465</u>

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 2015	31 December 2014
Financial assets - unlisted		
At beginning of year	75,057	63,691
Impairment charged for the year	(1,489)	-
Fair value change recognized through profit or loss	(4,458)	2,139
Fair value change recognized in other comprehensive income	18,637	(564)
Purchases/(Disposals)	39,365	9,791
At end of year	<u>127,112</u>	<u>75,057</u>

During the year, there were no transfers of financial instruments between Level 1 and Level 2, and no transfers into or out of Level 3.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

21. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US\$'000	31 December 2015	31 December 2014
Accounts receivable	3,284	15,892
Accrued investment income	49,954	42,290
Deposits	4,656	5,231
Investment receivable	3,067	-
Prepayments	15,167	10,195
Other assets	1,119	11,270
Total prepayments, deposits and other assets	<u>77,247</u>	<u>84,878</u>

22. INSURANCE RECEIVABLES

US\$'000	31 December 2015	31 December 2014
Due from policyholders	34,439	31,680
Due from reinsurers	46,727	9,017
Premium deposit fund under reinsurance arrangement	<u>1,904</u>	<u>7,563</u>
Total insurance receivables	<u>83,070</u>	<u>48,260</u>
Current insurance receivables	<u>83,070</u>	<u>48,260</u>

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 the 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.

Premium deposit fund under reinsurance arrangement represents a premium deposit made with the reinsurer on which interest is accrued. Renewal reinsurance premiums payable to the reinsurer under the policy are deducted from the premium deposit fund on each policy anniversary.

The carrying amounts of insurance receivables approximate their fair values.



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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23. CASH AND CASH EQUIVALENTS

US\$'000	31 December 2015	31 December 2014
Time deposits	56,699	75,369
Savings accounts	207,913	320,317
Current accounts	131,965	62,057
Cash on hand	<u>11</u>	<u>3</u>
	<u>396,588</u>	<u>457,746</u>
Less: Pledged time deposits	<u>(11,348)</u>	<u>(11,256)</u>
Cash and cash equivalents	<u><u>385,240</u></u>	<u><u>446,490</u></u>

Time deposits of US\$11,348,000 (2014: US\$11,256,000) were used to guarantee the insurance reserve as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 24. INSURANCE CONTRACT LIABILITIES

US\$'000		31 December 2015		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	6,398,299	(377,779)	6,020,520
Non-life insurance contracts	(b)	62,360	(6,020)	56,340
Total insurance contract liabilities		<u>6,460,659</u>	<u>(383,799)</u>	<u>6,076,860</u>

US\$'000		31 December 2014		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	5,386,745	(247,109)	5,139,636
Non-life insurance contracts	(b)	53,084	(4,454)	48,630
Total insurance contract liabilities		<u>5,439,829</u>	<u>(251,563)</u>	<u>5,188,266</u>

## (a) Life insurance contracts

The movement of insurance liabilities under life insurance contracts is as follows:

US\$'000		31 December 2015		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2015		5,386,745	(247,109)	5,139,636
Valuation premiums and deposits received		1,306,767	(215,515)	1,091,252
Expected investment return		105,993	(7,143)	98,850
Liabilities released for deaths, maturities, surrenders and other benefit payments		(468,140)	56,071	(412,069)
Fees deducted		(86,242)	6,520	(79,722)
Interest accrued and change in unit price		45,141	(4,233)	40,908
Foreign exchange movements		79	(1)	78
Other movement		107,956	33,631	141,587
At 31 December 2015		<u>6,398,299</u>	<u>(377,779)</u>	<u>6,020,520</u>

US\$'000		31 December 2014		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2014		4,488,932	(163,145)	4,325,787
Valuation premiums and deposits received		1,085,046	(86,899)	988,147
Expected investment return		95,083	(6,478)	88,605
Liabilities released for deaths, maturities, surrenders and other benefit payments		(333,097)	1,139	(331,958)
Fees deducted		(71,675)	1,772	(69,903)
Interest accrued and change in unit price		58,313	(425)	57,888
Effect of regrouping		16,118	-	16,118
Foreign exchange movements		(8,064)	-	(8,064)
Other movement		56,089	6,927	63,016
At 31 December 2014		<u>5,386,745</u>	<u>(247,109)</u>	<u>5,139,636</u>

In 2014, it was noted that certain limited payment products were grouped as insurance contracts while certain other regular payment products were grouped as investment contracts. The effect of regrouping these products is to increase insurance contract liabilities by US\$16,118,000 and to increase VOBA by US\$16,118,000, with no impact to the statement of comprehensive income.

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 24. INSURANCE CONTRACT LIABILITIES (continued)

**Business description**

The table below summarizes the key variables underlying life insurance and investment 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.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Lapses</li> <li>• Morbidity</li> <li>• Dividend / bonus rates</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Partial withdrawals</li> <li>• Premium holidays</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>
Universal Life	Universal Life contracts combine savings with protection. Account balances are credited with interest at a rate set by the insurer.	Benefits are based on the account balance and death and living benefits.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Crediting rates</li> <li>• Lapses</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 24. 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.

Type of contract	Market and credit risk			Significant insurance and lapse risks
	Direct exposure		Indirect exposure	
	Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life assurance with DPF	<ul style="list-style-type: none"> <li>Net neutral except for the insurer's share of participating investment performance</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral except for the insurer's share of participating investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Impact of persistency on future dividends</li> <li>Mortality</li> <li>Morbidity</li> </ul>
Traditional non-participating life assurance	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Asset-liability mismatch risk</li> <li>Credit Risk</li> <li>Investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Morbidity</li> <li>Persistency</li> </ul>
Accident and health non-participating	<ul style="list-style-type: none"> <li>Loss ratio</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Credit risk</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Morbidity</li> <li>Persistency</li> </ul>
Pension	<ul style="list-style-type: none"> <li>Net neutral except minimum crediting rate is zero</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral except minimum crediting rate is zero</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Performance related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Persistency</li> </ul>
Investment-Linked	<ul style="list-style-type: none"> <li>Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Persistency</li> <li>Partial withdrawals</li> <li>Premium holidays</li> </ul>
Universal Life	<ul style="list-style-type: none"> <li>Guarantees</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Credit risk</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Spread between earned rate and crediting rate to policyholders</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Persistency</li> <li>Partial withdrawals</li> <li>Premium holidays</li> </ul>

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 and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

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## 24. INSURANCE CONTRACT LIABILITIES (continued)

## (b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US\$'000		31 December 2015		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
	Notes			
Provision for claims reported by policyholders		26,190	(3,483)	22,707
Provision for claims incurred but not reported ("IBNR")		<u>8,593</u>	<u>85</u>	<u>8,678</u>
Total claims reported and IBNR	(i)	34,783	(3,398)	31,385
Provision for unearned premiums	(ii)	<u>27,577</u>	<u>(2,622)</u>	<u>24,955</u>
Total non-life insurance contract liabilities		<u>62,360</u>	<u>(6,020)</u>	<u>56,340</u>
US\$'000		31 December 2014		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		19,011	(2,017)	16,994
Provision for claims incurred but not reported ("IBNR")		<u>7,417</u>	<u>27</u>	<u>7,444</u>
Total claims reported and IBNR	(i)	26,428	(1,990)	24,438
Provision for unearned premiums	(ii)	<u>26,656</u>	<u>(2,464)</u>	<u>24,192</u>
Total non-life insurance contract liabilities		<u>53,084</u>	<u>(4,454)</u>	<u>48,630</u>

## (i) The provision for claims reported by policyholders and IBNR is as follows:

US\$'000		31 December 2015		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
	Notes			
1 January 2015		26,428	(1,990)	24,438
Claims incurred in the year		38,342	(16,711)	21,631
Claims recovered/(paid) during the year	9	(30,008)	15,304	(14,704)
Foreign exchange movements		<u>21</u>	<u>(1)</u>	<u>20</u>
31 December 2015		<u>34,783</u>	<u>(3,398)</u>	<u>31,385</u>
US\$'000		31 December 2014		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2014		22,463	(1,968)	20,495
Claims incurred in the year		28,783	(1,310)	27,473
Claims recovered/(paid) during the year	9	<u>(24,818)</u>	<u>1,288</u>	<u>(23,530)</u>
31 December 2014		<u>26,428</u>	<u>(1,990)</u>	<u>24,438</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 24. INSURANCE CONTRACT LIABILITIES (continued)

(ii) The provision for unearned premiums is as follows:

US\$'000		31 December 2015		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2015		26,656	(2,464)	24,192
Premiums written in the year	6	64,008	(26,129)	37,879
Premiums earned during the year		(63,113)	25,974	(37,139)
Foreign exchange difference		26	(3)	23
31 December 2015		<u>27,577</u>	<u>(2,622)</u>	<u>24,955</u>

US\$'000		31 December 2014		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2014		22,453	(2,352)	20,101
Premiums written in the year	6	61,439	(8,175)	53,264
Premiums earned during the year		(57,228)	8,063	(49,165)
Foreign exchange difference		(8)	-	(8)
31 December 2014		<u>26,656</u>	<u>(2,464)</u>	<u>24,192</u>

## 25. INVESTMENT CONTRACT LIABILITIES

US\$'000		31 December 2015	31 December 2014
	Notes	Gross and net investment contract liabilities	Gross and net investment contract liabilities
Investment contract liabilities with DPF	(a)	404,839	400,729
Investment contract liabilities without DPF	(b)	298,746	306,435
Total investment contract liabilities		<u>703,585</u>	<u>707,164</u>

The movement of investment contract liabilities is as follows:

(a) Investment contract liabilities with DPF

Gross and net investment contract liabilities		31 December 2015	31 December 2014
At beginning of year		400,729	410,632
Premium received		26,897	42,966
Surrenders and withdrawals		(28,689)	(49,755)
Interest accrued and change in unit price		5,763	5,464
Others		139	(8,578)
At end of year		<u>404,839</u>	<u>400,729</u>

(b) Investment contract liabilities without DPF

Gross and net investment contract liabilities		31 December 2015	31 December 2014
At beginning of year		306,435	230,073
Premium received		28,979	87,480
Surrenders and withdrawals		(28,445)	(17,663)
Net investment income		1,116	1,031
Expenses		(400)	(1,936)
Interest accrued and change in unit price		(9,597)	5,700
Other movements		658	1,750
At end of year		<u>298,746</u>	<u>306,435</u>

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26. BORROWINGS

US\$'000

	31 December 2015	31 December 2014
Medium Term Notes	<u>419,949</u>	<u>321,247</u>
Total Borrowings	<u><u>419,949</u></u>	<u><u>321,247</u></u>

On 24 September 2014, FWD Limited issued a 10-year senior unsecured note at nominal amount of US\$325,000,000. The note, due 2024, bears interest at 5.00% per annum. The note is listed on The Stock Exchange of Hong Kong Limited. A portion of the proceeds was used to fully repay total outstanding bank borrowings of US\$207,700,000.

On 22 May 2015, FWD Limited issued an 8-year senior unsecured note at nominal amount of US\$100,000,000. The note, due 2023, bears interest at 4.15% per annum. The note is listed on the Irish Stock Exchange.

27. INSURANCE AND OTHER LIABILITIES

US\$'000

	31 December 2015	31 December 2014
Accounts payable	823	1,064
Accrued commissions	51,647	79,740
Accrued expenses	18,957	20,445
Accrued agent expenses	50,150	27,222
Insurance payables	1,029	690
Investment creditors	658	62,982
Others	23,286	20,532
Tax payable	<u>295</u>	<u>711</u>
Total insurance and other liabilities	<u><u>146,845</u></u>	<u><u>213,386</u></u>

The carrying amounts of the insurance and other liabilities approximate to their fair values.

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28. SHARE CAPITAL AND RESERVES

(1) Share capital

US\$'000

	31 December 2015	31 December 2014
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	<u>5,000</u>	<u>5,000</u>
	<u>25,000</u>	<u>25,000</u>
Issued and fully paid,		
18,586,640 (2014: 18,486,640) ordinary shares of US\$0.01 each	186	185
8,202,225 (2014: 2,601,634) preference shares of US\$0.01 each	<u>82</u>	<u>26</u>
	<u>268</u>	<u>211</u>

During the year, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
<i>(a) Ordinary shares issued and fully paid</i>		
Issuance of 10 ordinary shares of US\$1 each on 13 December 2012	-	-
Issuance of 18,486,630 ordinary shares of US\$1 each on 27 February 2013	18,487	1,830,176
Surrender of 18,301,773.6 ordinary shares of US\$1 each on 10 December 2013	(18,302)	-
Sub-division of 184,866.4 ordinary shares of US\$1 each to 18,486,640 ordinary shares of US\$0.01 each on 10 December 2013	<u>-</u>	<u>-</u>
31 December 2014	<u>185</u>	<u>1,830,176</u>
Issuance of 100,000 ordinary shares of US\$0.01 each on 5 June 2015	<u>1</u>	<u>7,668</u>
31 December 2015	<u>186</u>	<u>1,837,844</u>
<i>(b) Preference shares issued and fully paid</i>		
13 December 2012	-	-
Issuance of 2,601,634 preference shares of US\$0.01 each On 10 December 2013	<u>26</u>	<u>-</u>
31 December 2014	<u>26</u>	<u>-</u>
Issuance of 5,600,591 preference shares of US\$0.01 each On 19 August 2015	<u>56</u>	<u>-</u>
31 December 2015	<u>82</u>	<u>-</u>
31 December 2015	<u>268</u>	<u>1,837,844</u>

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.



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28. SHARE CAPITAL AND RESERVES (continued)

(2) 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 Article 60 of the Decree-Law No. 32/93/M of 30 July 1993 of Macau.

(c) *Cash flow hedge reserve*

The cash flow hedge reserve represents the cumulative gain or loss on the hedging instrument from inception of the cash flow hedge.

(d) *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.

(e) *Defined benefit obligation revaluation reserve*

The defined benefit obligation revaluation reserve comprises the outstanding reserve for the defined benefit plan.

(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.

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NOTES TO FINANCIAL STATEMENTS

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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		Principal activities
		Direct	Indirect	
FWD Financial Services Pte. Limited.	Singapore	100	-	Investment holding
FWD Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Company (Bermuda) Limited	Bermuda/ Hong Kong	34	66	Life Insurance
FWD Life Insurance Company (Macau) Limited	Macau	-	100	Life Insurance
FWD General Insurance Company Limited	Hong Kong	-	100	General Insurance
FWD Financial Planning Limited	Hong Kong	-	100	Investment Advisory
FWD Pension Trust Limited	Hong Kong	-	100	Trust company

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above.

The percentage of total direct and indirect equity attributable to the Group in each of the above subsidiaries was the same at both 31 December 2015 and 31 December 2014.

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 8 years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

US\$'000	31 December 2015	
	Lowest	Highest
Within one year	33,658	33,658
In the second to fifth years, inclusive	117,417	121,540
Over five years	75,213	76,208
	<u>226,288</u>	<u>231,406</u>

US\$'000	31 December 2014	
	Lowest	Highest
Within one year	27,161	27,161
In the second to fifth years, inclusive	94,993	97,408
Over five years	84,771	87,470
	<u>206,925</u>	<u>212,039</u>

The monthly rental of two operating lease arrangements is subject to change once the first term expires, with the rental amount determined by an independent surveyor within agreed ranges according to market conditions.

## NOTES TO FINANCIAL STATEMENTS

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## 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 2015	Year ended 31 December 2014
Short-term employee benefits	7,404	7,037
Post-employment benefits	200	134
Share-based payment	10,709	12,619
Other long-term benefits	<u>2,321</u>	<u>2,177</u>
Total compensation paid and payable to key management personnel	<u>20,634</u>	<u>21,967</u>

*(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\$2,508,000 (2014: US\$1,888,000) to a related party for provision of IT, HR and other building-related services and incurred US\$3,848,000 (2014: US\$3,597,000) for administration, consultancy and management services provided by the related party.
- (ii) Related companies charged US\$9,025,000 (2014: US\$7,526,000) for the provision of telecommunication and investment advisory services and US\$557,000 (2014: US\$433,000) for brand licensing fees to the Group.
- (iii) The Group has underwritten various group insurance contracts with related companies. The total premium revenue from those contracts for the year was US\$1,528,000 (2014: US\$1,066,000).
- (II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US\$3,839,000 (2014: US\$5,112,000) 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\$2,189,000 (2014: US\$34,857,000) as at the end of the reporting year. The advances are unsecured, interest-free and payable on demand.

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## 32. SHARE-BASED COMPENSATION

**Share-based compensation plans**

The Group operates a share award plan that provides FWD 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 Limited.

The following table shows the movement in outstanding awards under the Group's share-based compensation plans:

Number of shares	December 2015	December 2014
At beginning of year	950,000	-
Granted during the year	-	1,050,000
Vested during the year	(100,000)	(100,000)
At end of year	850,000	950,000

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 2015 is nil (2014: US\$80.5million).

**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 2015 is US\$10.7million (2014: US\$12.6million).

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## 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 the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

**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 Company (Bermuda) Limited	Hong Kong Office of the Commissioner of Insurance (HKOCI)	Hong Kong Insurance Company Ordinance (HKICO)
FWD General Insurance Company Limited	Hong Kong Office of the Commissioner of Insurance (HKOCI)	Hong Kong Insurance Company Ordinance (HKICO)

The capital positions of the Group's principal operating companies at 31 December 2015 and 31 December 2014 are as follows:

31 December 2015 US\$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	489,714	226,357	216%
FWD General Insurance Company Limited	42,366	6,382	664%
31 December 2014 US\$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	453,955	200,949	226%
FWD General Insurance Company Limited	45,894	7,903	581%

The HKICO (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 Hong Kong. The HKOCI requires FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKICO is 100 per cent of the required minimum solvency margin.

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.

**Capital and Regulatory Orders Specific to the Group**

At 31 December 2015 and 31 December 2014, the requirements and restrictions summarized below may be considered material to the Group and remain in effect unless otherwise stated.

**Hong Kong Office of the Commissioner of Insurance**

Undertakings have been given to the HKOCI that:

- (i) FWD Life Insurance Company (Bermuda) Limited will maintain and continue to maintain a solvency ratio target of 150 per cent to 200 per cent at all times and if the solvency ratio falls below the minimum target range, FWD Life Insurance Company (Bermuda) Limited will reinstate it within 90 days or a period of time as agreed with the HKOCI;
- (ii) FWD General Insurance Company Limited will maintain and continue to maintain a solvency ratio target of 300% to 500% at all times and if the solvency ratio falls below the minimum target range, FWD General Insurance Company Limited will reinstate it within 90 days or a period of time as agreed with the HKOCI; and
- (iii) Prior written consent from HKOCI will be obtained before declaring or paying dividends to shareholders.

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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 and investment 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.

## NOTES TO FINANCIAL STATEMENTS

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## 34. RISK MANAGEMENT (continued)

**Insurance risks**(1) Life insurance contracts and investment 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	2015	2014
10% increase in mortality	(1,836)	(1,796)
10% increase in morbidity	(3,628)	(3,012)
1% decrease in investment return	(1,274)	(1,279)
10% increase in expenses	(9,491)	(7,935)
10% increase in lapse/discontinuance rates	(15,798)	(12,794)

## (2) Non-life insurance contracts

The Group's non-life insurance business is diversified over seven classes of business. The Group has developed a robust underwriting framework to ensure that all risks accepted meet the guidelines and standards of the Group.

The Group's non-life insurance business is primarily derived from Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Group's insurance portfolio. The Group has developed a reinsurance strategy to ensure that a prudent and appropriate reinsurance program is in place, which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Group's reinsurance strategy include protection of shareholders' funds, reduction in volatility of the Group's underwriting result and diversified credit risk. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment of reinsurance assets.

## (i) Case estimates

For non-life insurance contracts, the case estimate for each reported claim is set up based on the best estimate of the ultimate claim settlement amount considering all the information available for the claim. The case estimate is revised from time to time according to the latest information available. When setting case estimates for larger claims, reference is made to the advice of independent consultants such as loss adjusters and solicitors where applicable.

## (ii) Key assumptions

Generally accepted actuarial methodologies, such as chain-ladder and Bornhuetter-Ferguson methods, are used to project the ultimate claims by class of business. The Group's past experience and claim development patterns are important assumptions for such projections. Other assumptions include average claim costs, claims handling expenses and claims inflation. The projected ultimate claim amount may also be judgmentally adjusted by external factors such as prevailing trends in judicial decisions, the economic environment and relevant government legislation.

## (iii) Sensitivities

Sensitivity analysis is performed to assess the effect of increasing the claim liabilities by 10% on the Group's net income and shareholders' equity.

In performing the sensitivity analysis, it is assumed that all reinsurance recoveries are recoverable.

## NOTES TO FINANCIAL STATEMENTS

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## 34. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

## (2) Non-life insurance contracts (continued)

The table below shows the results of the sensitivity analysis:

		31 December 2015			
US\$'000	Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	3,848	2,164	(2,164)	(1,807)
		31 December 2014			
US\$'000	Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	2,878	2,748	(2,748)	(2,294)

\* Impact on equity reflects adjustments for tax, when applicable.



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

Loss development triangle

The tables below show the development of incurred claims, including both notified and IBNR claims, over time for each successive accident year following the reporting year. Cumulative claims payments as at the current reporting year are also shown.

31 December 2015

Gross claims development  
US\$'000

Accident Year	Note	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Accident year		29,550	15,987	18,669	18,370	18,712	20,421	24,319	25,726	29,055	38,219	
One year later		27,517	15,067	16,692	15,793	16,935	18,942	21,674	23,461	27,306		
Two years later		27,677	16,227	16,858	16,125	17,468	20,132	23,254	25,509			
Three years later		26,705	16,436	16,999	15,884	17,917	20,287	23,310				
Four years later		26,154	16,096	16,714	15,661	18,462	20,275					
Five years later		25,307	15,869	16,637	15,584	18,296						
Six years later		24,978	15,758	16,536	15,585							
Seven years later		24,937	15,680	16,505								
Eight years later		24,931	15,680									
Nine years later		24,919										
Current estimate of Cumulative claims		24,919	15,680	16,505	15,585	18,296	20,275	23,310	25,509	27,306	38,219	225,604
Cumulative payment to date		(24,740)	(15,638)	(16,311)	(15,514)	(17,985)	(19,512)	(20,704)	(20,457)	(20,200)	(19,760)	(190,821)
Total gross non-life insurance claim liabilities as per the statement of financial position	24(b)	179	42	194	71	311	763	2,606	5,052	7,106	18,459	34,783

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

Loss development triangle (continued)

31 December 2015

Net claims development  
US\$'000

Accident Year	Note	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Accident year		26,032	14,602	16,511	16,850	17,443	19,173	22,446	24,593	27,920	22,527	
One year later		24,737	13,948	15,029	14,676	15,952	17,659	20,113	22,389	26,186		
Two years later		24,431	15,049	15,132	15,046	16,480	18,586	21,769	23,978			
Three years later		22,816	14,835	14,735	14,831	16,727	18,633	21,818				
Four years later		21,593	14,227	13,965	14,538	16,816	18,215					
Five years later		20,795	13,947	13,773	14,617	16,592						
Six years later		20,523	13,842	13,738	14,540							
Seven years later		20,463	13,781	13,685								
Eight years later		20,469	13,781									
Nine years later		20,448										
Current estimate of Cumulative claims		20,448	13,781	13,685	14,540	16,592	18,215	21,818	23,978	26,186	22,527	191,770
Cumulative payment to date		(20,339)	(13,740)	(13,653)	(14,495)	(16,419)	(17,717)	(19,326)	(19,633)	(19,457)	(5,606)	(160,385)
Total net non-life insurance claim liabilities as per the statement of financial position	24(b)	109	41	32	45	173	498	2,492	4,345	6,729	16,921	31,385

The estimated claim liabilities are subject to a significant degree of uncertainty, and could vary materially depending on the development of future claims experience. Differences resulting from reassessment of the ultimate liabilities will be recognized in subsequent financial statements.

31 December 2015

34. RISK MANAGEMENT (continued)

**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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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 2015									
	US\$'000									
	AAA	AA	A	BBB	BB	B	Not rated	Total		
<b>Financial assets</b>										
Available-for-sale	985,925	796,001	2,010,475	1,143,930	22,022	1,816	431,821	5,391,990		
Fair value through profit or loss	26,479	121,325	123,621	3,150	-	-	926,235	1,200,810		
Loans and receivables	-	-	60,712	-	-	-	78,554	139,266		
Derivative financial instruments	-	-	6,661	-	-	-	-	6,661		
Reinsurance assets	-	375,027	2,752	-	-	-	6,020	383,799		
Prepayments, deposits and other assets	-	53	186	-	-	-	77,008	77,247		
Insurance receivables	-	-	-	-	-	-	83,070	83,070		
Due from related parties	-	-	-	-	-	-	3,839	3,839		
Cash and cash equivalents	-	34,727	357,733	748	-	-	3,380	396,588		
	<u>1,012,404</u>	<u>1,327,133</u>	<u>2,562,140</u>	<u>1,147,828</u>	<u>22,022</u>	<u>1,816</u>	<u>1,609,927</u>	<u>7,683,270</u>		

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RISK MANAGEMENT (continued)

**Financial risks (continued)**

	(a) <u>Credit risk (continued)</u>							
	AAA	AA	A	BBB	BB	B	Not rated	Total
31 December 2014								
US\$'000								
Financial assets								
Available-for-sale	157,648	1,959,406	1,735,636	600,066	17,423	10,620	212,101	4,692,900
Fair value through profit or loss	30,197	94,099	130,334	406	3,528	-	929,387	1,187,951
Loans and receivables	-	-	57,711	-	-	-	77,175	134,886
Derivative financial instruments	-	-	3,512	-	-	-	-	3,512
Reinsurance assets	-	3,342	243,768	-	-	-	4,453	251,563
Prepayments, deposits and other assets	-	-	-	-	-	-	84,878	84,878
Insurance receivables	-	-	-	-	-	-	48,260	48,260
Due from related parties	-	-	-	-	-	-	5,112	5,112
Cash and cash equivalents	-	81,050	372,669	1,209	-	-	2,818	457,746
	<u>187,845</u>	<u>2,137,897</u>	<u>2,543,630</u>	<u>601,681</u>	<u>20,951</u>	<u>10,620</u>	<u>1,364,184</u>	<u>6,866,808</u>

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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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 and investment 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 and investment 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 and investment contract liabilities, which are not shown in the table below. Refer to Notes 24 and 25 for additional information on the Group's insurance and investment contract liabilities, as well as to the Insurance Risks section within Note 34.

31 December 2015

US\$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
<b>Financial assets</b>						
Available-for-sale	108,949	502,945	845,020	3,503,895	431,181	5,391,990
Fair value through profit or loss	37,638	60,220	71,357	105,360	926,235	1,200,810
Loans and receivables	1,567	4,172	2,122	68,380	63,025	139,266
Derivative financial instruments	879	2,299	3,483	-	-	6,661
Deposits and other assets	62,080	-	-	-	-	62,080
Insurance receivables	83,070	-	-	-	-	83,070
Due from related parties	3,839	-	-	-	-	3,839
Cash and cash equivalents	374,493	-	-	-	22,095	396,588
<b>Total</b>	<b>672,515</b>	<b>569,636</b>	<b>921,982</b>	<b>3,677,635</b>	<b>1,442,536</b>	<b>7,284,304</b>
<b>Financial liabilities</b>						
Borrowings	-	-	-	419,949	-	419,949
Derivative financial instruments	80	101	-	-	-	181
Insurance and other liabilities	146,845	-	-	-	-	146,845
Due to related parties	2,189	-	-	-	-	2,189
<b>Total</b>	<b>149,114</b>	<b>101</b>	<b>-</b>	<b>419,949</b>	<b>-</b>	<b>569,164</b>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RISK MANAGEMENT (continued)

**Financial risks (continued)**

*(b) Liquidity risk(continued)*

31 December 2014

US\$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
<b>Financial assets</b>						
Available-for-sale	145,746	902,835	573,870	2,858,348	212,101	4,692,900
Fair value through profit or loss	21,326	72,005	52,599	112,633	929,388	1,187,951
Loans and receivables	2,432	1,158	4,968	64,879	61,449	134,886
Derivative financial instruments	2,794	287	431	-	-	3,512
Deposits and other assets	74,681	-	-	-	2	74,683
Insurance receivables	48,260	-	-	-	-	48,260
Due from related parties	5,112	-	-	-	-	5,112
Cash and cash equivalents	381,501	-	-	-	76,245	457,746
<b>Total</b>	<b>681,852</b>	<b>976,285</b>	<b>631,868</b>	<b>3,035,860</b>	<b>1,279,185</b>	<b>6,605,050</b>
<b>Financial liabilities</b>						
Borrowings	-	-	-	321,247	-	321,247
Derivative financial instruments	2,521	1,141	376	-	-	4,038
Insurance and other liabilities	207,575	-	-	-	5,811	213,386
Due to related parties	34,857	-	-	-	-	34,857
<b>Total</b>	<b>244,953</b>	<b>1,141</b>	<b>376</b>	<b>321,247</b>	<b>5,811</b>	<b>573,528</b>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RISK MANAGEMENT (continued)

**Financial risks (continued)**

(c) *Market risk*

(i) *Currency 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 and investment contracts.

The Group's financial assets and liabilities are primarily denominated in United States dollars and Hong Kong dollars, for which the exchange rates have remained stable for the years ended 31 December 2015 and 31 December 2014.

At 31 December 2015, assets denominated in United States dollars and Hong Kong dollars accounted for 68% (2014: 67%) and 27% (2014: 28%) of the Group's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 43% (2014: 41%) and 52% (2014: 54%) of the Group's total liabilities, respectively. The Group has more United States dollar denominated assets than it has corresponding United States dollar denominated liabilities due to the much deeper pool of investment assets available in United States dollars. As a result, some of the United States dollar-denominated assets are used to back Hong Kong dollar denominated liabilities. This currency mismatch is then hedged, using forward currency contracts, to reduce the currency risk.

(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 and investment 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.

In the analysis, it is assumed that the discount rates for the liabilities with regard to insurance contracts remain unchanged.

US\$'000		Impact on shareholders' equity	
Currency	Change in variables	31 December 2015	31 December 2014
HKD	+25 basis points	(10,139)	(10,398)
HKD	-25 basis points	10,139	10,398
USD	+25 basis points	(82,963)	(70,201)
USD	-25 basis points	82,963	70,201



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RISK MANAGEMENT (continued)

**Financial risks (continued)**

*(c) Market risk (continued)*

(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 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 2015	31 December 2014
Change in equity prices	-10%	(13,538)	(13,383)

Audited Financial Statements

FWD Limited

(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2014

**Independent auditors' report**  
**To the shareholders of FWD Limited**  
(Incorporated in the Cayman Islands with limited liability)

We have audited the accompanying consolidated financial statements of FWD Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 86, which comprise the consolidated statement of financial position as at 31 December 2014, 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 ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, 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.

**Auditors' responsibility**

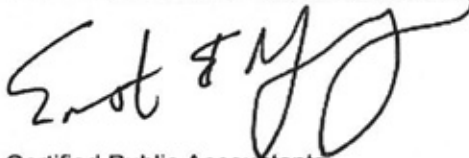
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards.



Certified Public Accountants  
Hong Kong  
19 March 2015

FWD LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US\$'000

	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
<b>REVENUE</b>			
Gross premiums	5(a)	1,168,069	880,375
Reinsurers' share of gross premiums	5(b)	(104,577)	(65,167)
Change in unearned premiums	5(c)	(4,099)	49
Net premiums		<u>1,059,393</u>	<u>815,257</u>
<b>OTHER REVENUE</b>			
Fees and commission income	6	92,000	64,029
Investment income	7	154,538	117,429
Net realized gains/(losses) on financial assets	8	35,797	(18,077)
Net fair value gains/(losses) on financial assets	9	4,838	(11,973)
Other operating revenue		<u>23</u>	<u>27</u>
		<u>287,196</u>	<u>151,435</u>
<b>TOTAL REVENUE</b>		<u><b>1,346,589</b></u>	<u><b>966,692</b></u>
<b>BENEFITS AND CLAIMS</b>			
Gross benefits and claims paid	10(a)	(397,259)	(362,434)
Reinsurers' share of gross benefits and claims paid	10(b)	5,933	5,553
Gross change in contract liabilities	10(c)	(840,552)	(576,965)
Reinsurers' share of gross change in contract liabilities	10(d)	84,082	60,544
Net benefits and claims		<u>(1,147,796)</u>	<u>(873,302)</u>
<b>OTHER EXPENSES</b>			
Value of business acquired amortization	15	(16,156)	(18,319)
Net deferred acquisition cost movement	16	143,059	103,018
Finance costs		(10,495)	(14,718)
Fee and commission expenses	11	(100,467)	(68,365)
Depreciation and amortization	17	(3,588)	(2,383)
Other operating and administrative expenses	12	(159,811)	(131,307)
		<u>(147,458)</u>	<u>(132,074)</u>
<b>TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES</b>		<u><b>(1,295,254)</b></u>	<u><b>(1,005,376)</b></u>
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>51,335</b>	<b>(38,684)</b>
Income tax expense	13	<u>(9,752)</u>	<u>41,266</u>
<b>PROFIT/(LOSS) FOR THE YEAR/PERIOD</b>		<u><b>41,583</b></u>	<u><b>2,582</b></u>

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FWD LIMITED

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

US\$'000

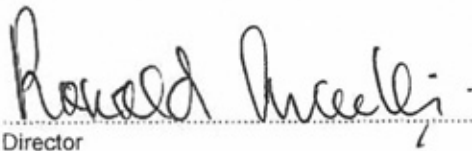
	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
PROFIT/(LOSS) FOR THE YEAR/PERIOD		<u>41,583</u>	<u>2,582</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Change in fair value	18.1	310,759	(244,549)
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8	(30,231)	25,649
- impairment losses	18.1	-	-
Income tax effect	24	<u>(24,063)</u>	<u>(11,422)</u>
		256,465	(230,322)
Cash flow hedges:			
Effective portion of changes in fair value		(1,543)	-
Transfer from equity to statement of profit or loss		41	-
Income tax effect		-	-
		<u>(1,502)</u>	-
Exchange differences on translation of foreign operations		<u>(9)</u>	<u>40</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		<u>254,954</u>	<u>(230,282)</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit obligation		<u>(91)</u>	<u>679</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		<u>(91)</u>	<u>679</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX		<u>254,863</u>	<u>(229,603)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>296,446</u>	<u>(227,021)</u>

FWD LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$'000

	Notes	31 December 2014	31 December 2013
<b>ASSETS</b>			
Goodwill	14	902,057	902,057
Value of business acquired	15	591,360	591,394
Deferred acquisition cost	16	247,553	104,384
Plant and equipment	17	11,717	4,522
<b>Financial assets</b>			
Available-for-sale financial assets	18.1	4,692,900	3,734,546
Financial assets at fair value through profit or loss	18.2	1,187,951	1,096,646
Loans and receivables	18.3	134,886	126,763
Derivative financial instruments	18.4	3,512	1,163
Reinsurance assets	22,27	251,563	167,465
Prepayments, deposits and other assets	23	120,335	63,202
Deferred tax assets	24	-	30,830
Insurance receivables	25	48,260	64,795
Due from related parties	35(b)	5,112	3,783
Pledged deposits	26	11,256	11,189
Cash and cash equivalents	26	446,490	252,546
<b>TOTAL ASSETS</b>		<b>8,654,952</b>	<b>7,155,285</b>
<b>LIABILITIES</b>			
Insurance contract liabilities	27	5,439,829	4,533,848
Investment contract liabilities	28	707,164	640,705
Due to related parties	35(b)	34,857	33,086
Deferred acquisition cost – Reinsurer's share	16	1,487	1,364
Borrowings	29	321,247	202,000
Derivative financial instruments	18.4	4,038	2,598
Deferred tax liabilities	24	2,211	274
Insurance and other payables	30	69,953	49,185
Accrued commissions		79,740	47,717
Investment creditors		62,982	21,855
Tax payable		711	985
<b>TOTAL LIABILITIES</b>		<b>6,724,219</b>	<b>5,533,617</b>
<b>EQUITY</b>			
Issued capital	31	211	211
Share premium	31	1,830,176	1,830,176
Capital redemption reserve		18,302	18,302
Share-based payment reserve	36	12,619	-
Legal reserve		1,562	1,562
Cash flow hedge reserve		(1,502)	-
Available-for-sale financial assets revaluation reserve		26,239	(230,226)
Defined benefit obligation revaluation reserve		492	583
Foreign currency translation reserve		31	40
Retained earnings/(accumulated losses)		42,603	1,020
<b>TOTAL EQUITY</b>		<b>1,930,733</b>	<b>1,621,668</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,654,952</b>	<b>7,155,285</b>

  
Director

  
Director

FWD LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$'000

	Note	Issued capital	Share premium	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/losses	Total equity
At 13 December 2012		-	-	-	-	-	-	-	-	-	-	-
Issuance of shares		18,513	1,830,176	-	-	-	-	-	-	-	-	1,848,689
Transfer to capital redemption reserve		(18,302)	-	18,302	-	-	-	-	-	-	-	-
Profit/(loss) for the period		-	-	-	-	-	-	-	-	-	2,582	2,582
Other comprehensive income for the period		-	-	-	-	-	-	(230,226)	583	-	-	(229,643)
Transfer to legal reserve		-	-	-	-	1,562	-	-	-	-	(1,562)	-
Change in foreign currency translation reserve		-	-	-	-	-	-	-	-	40	-	40
At 31 December 2013		211	1,830,176	18,302	-	1,562	-	(230,226)	583	40	1,020	1,621,668
Change in share-based payment reserve	36	-	-	-	12,619	-	-	-	-	-	-	12,619
Profit/(loss) for the year		-	-	-	-	-	-	-	-	-	41,583	41,583
Other comprehensive income for the year		-	-	-	-	-	(1,502)	256,465	(91)	(9)	-	254,863
At 31 December 2014	31	211	1,830,176	18,302	12,619	1,562	(1,502)	26,239	492	31	42,603	1,930,733

FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US\$'000

	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		51,335	(38,684)
Adjustments for:			
Dividend income	7	(18,018)	(16,818)
Interest income	7	(138,609)	(101,351)
Net realized (gain)/loss on disposal of financial assets	8	(35,797)	18,077
Fair value (gain)/loss on financial assets	9	(4,838)	11,973
Depreciation of plant and equipment	17	3,588	2,383
Loss on disposal of plant and equipment		42	-
Reversal of impairment on secured loans	7	(121)	(102)
P&L impact of share-based payment		12,619	-
Interest amortization of issued bond		79	-
P&L impact of cash flow hedges		41	-
Amortization of VOBA	15	16,156	18,319
DAC movement	16	(143,182)	(104,384)
		<u>(256,705)</u>	<u>(210,587)</u>
(Increase)/decrease in reinsurance assets		(84,098)	(60,612)
(Increase)/decrease in prepayments, deposits and other assets		(57,133)	7,115
(Increase)/decrease in insurance receivables		16,535	(9,632)
(Increase)/decrease in amounts due from related parties		(1,329)	(3,783)
(Decrease)/increase in insurance contract liabilities		889,863	623,346
(Decrease)/increase in investment contract liabilities		66,459	80,831
(Decrease)/increase in amounts due to related parties		1,771	33,086
(Decrease)/increase in amounts DAC – reinsurer's share		123	1,364
(Decrease)/increase in insurance and other payables		20,768	8,160
(Decrease)/increase in accrued commissions		32,023	12,911
(Decrease)/increase in investment creditors		41,127	(20,000)
(Decrease)/increase in net pension scheme liabilities		(91)	109
Cash flows generated from operations		669,313	462,308
Dividend received from investments		17,312	16,818
Interest received		156,037	101,351
Investment expenses paid		(5,525)	(1,648)
Income tax paid		(1,254)	(755)
Net cash flows from operating activities		<u>835,883</u>	<u>578,074</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of subsidiaries	32	-	(2,036,900)
Purchases of plant and equipment	17	(10,825)	(2,740)
Purchases of available-for-sale financial assets		(1,941,500)	(1,692,101)
Purchases of cash flow hedge		(1,543)	-
Increase in pledged deposits		(67)	-
Proceeds from disposals of financial assets		1,192,895	1,167,904
Net cash flows used in investing activities		<u>(761,040)</u>	<u>(2,563,837)</u>

continued/...



FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US\$'000

	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of other equity instruments		-	1,848,689
Proceeds from bank loans	29	5,700	202,000
Proceeds of bond issuance	29	323,408	-
Bond issuance costs		(2,240)	-
Repayment of bank loans	29	<u>(207,700)</u>	<u>-</u>
Net cash flows from financing activities		<u>119,168</u>	<u>2,050,689</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>194,011</u>	<u>64,926</u>
Cash and cash equivalents at beginning of the period		252,546	
Cash and cash equivalents acquired	32	-	187,578
Effect of foreign exchange rate changes, net		<u>(67)</u>	<u>42</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	26	<u><u>446,490</u></u>	<u><u>252,546</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		382,377	154,394
Non-pledged time deposits with original maturity of less than three months when acquired		<u>64,113</u>	<u>98,152</u>
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		<u><u>446,490</u></u>	<u><u>252,546</u></u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

FWD Limited (the "Company") was incorporated on 13 December 2012 in the Cayman Islands and its principal business activity is investment holding. The registered office of the Company is Offshore Incorporations (Cayman) Limited, Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, 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, general insurance, and investment services.

In the opinion of the directors, Jamison Limited, a company incorporated in the Cayman Islands, is the Company's ultimate holding company as at the end of the reporting period. Jamison Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 12.3% shareholder of the Company.

The financial statements were approved and authorized for issuance by the board of directors on 19 March 2015.

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 remeasurement 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 Company was incorporated on 13 December 2012. As a result, the comparative information presented in these financial statements is for the period from 13 December 2012 (date of incorporation) to 31 December 2013. Moreover, the Company acquired the insurance businesses in Hong Kong and Macau on 28 February 2013. For these reasons, the comparative amounts presented for the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes are not directly comparable.

The accounting policies adopted are consistent with those of the previous financial year, except as described below.

- (a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2014 and have no material impact for the Group:

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	<i>Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities</i>
IAS 32 Amendments	<i>Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
IAS 36 Amendments	<i>Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
IAS 39 Amendments	<i>Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>

31 December 2014

## 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 2014 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:

IAS 1 Amendments	<i>Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative<sup>2</sup></i>
IAS 16 and IAS 38 Amendments	<i>Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation<sup>2</sup></i>
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions<sup>1</sup></i>
IFRS 10 and IAS 28 Amendments	<i>Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>2</sup></i>
IFRS 10, IFRS 12 and IAS 28 Amendments	<i>Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception<sup>2</sup></i>
IFRS 11 Amendments	<i>Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations<sup>2</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>3</sup></i>
Annual Improvements 2010-2012 Cycle	<i>Amendments to a number of IFRSs issued in December 2013<sup>1</sup></i>
Annual Improvements 2011-2013 Cycle	<i>Amendments to a number of IFRSs issued in December 2013<sup>1</sup></i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of IFRSs issued in September 2014<sup>2</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

(c) The following relevant new standards and amendments to standards have been issued but are not effective for the financial year ended 31 December 2014 and have not been early adopted (the financial years for which the adoption is required are stated).

IFRS 9	<i>Financial Instruments<sup>1</sup></i>
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<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

Further information regarding IFRSs expected to be applicable to the Group are as follows:

IFRS 9, issued in July 2014, replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. This version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatory for periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group has not early adopted the standard for these consolidated financial statements. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities.

31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2014. 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) the contractual arrangement 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.

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.

**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 that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognized in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. 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. The Group performs its annual impairment test of goodwill as at 30 June. 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.

**2.3 Insurance and investment contracts**

Product classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract, while investment contracts are those contracts without significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Some insurance and investment 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 and investment 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.

31 December 2014

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**Product classification (continued)

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. For investment contracts that do not contain DPF, IAS 39, *Financial Instruments: Measurement and Recognition*, and, if the contract includes an investment management element, IAS 18, *Revenue Recognition*, is applied. The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts.

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	Investment contract liabilities
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. Most of the products pay annual cash dividend. 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.	Insurance contract liabilities make provision for the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognized.	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts.
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 contract liabilities without DPF are measured at amortized cost.
Universal life	Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer.	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.	Not applicable as such contracts contain significant insurance risk.

31 December 2014

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**Product classification (continued)

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
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.	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value).

The basis of accounting for life insurance and investment contracts is further discussed in notes 2.3.1 and 2.3.2 below.

**2.3.1 Life insurance contracts and investment contracts with DPF***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, universal life and 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 and investment 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. Initiation 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.

31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.1 Life insurance contracts and investment contracts with DPF (continued)**

*Deferred Acquisition Costs ("DAC") (continued)*

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 universal life and 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. For Universal life contracts, the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. For investment-linked contracts, the interest rate used is locked-in at policy inception. Deviations of actual results from estimated experience are reflected in earnings.

*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;
- they are explicitly identified in the contract on inception;
- they are incremental to amounts credited on similar contracts without sales inducements; and
- they are higher than the expected ongoing crediting rates for periods after the inducement.

*Options and guarantees*

Options and guarantees within insurance or investment contracts are treated as derivative financial instruments which are closely related to the host insurance or investment 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.

Benefits paid for investment contracts with DPF are recognized in profit or loss in the year in which the claim is incurred and include claim handling costs.



31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.1 Life insurance contracts and investment contracts with DPF (continued)**

*Life insurance contract liabilities (including liabilities in respect of investment contracts with DPF)*

Life insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies. Life insurance liabilities are recognized when contracts are entered into and premiums are charged. The provision for life insurance contracts, other than universal life contracts, is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

For universal life contracts, life insurance contract liabilities reflect the accumulation value, which represents 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 where applicable.

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.

*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.

For investment contracts, deferred acquisition costs and value of business acquired on purchased contracts, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, the unamortized balances of deferred acquisition costs and value of business acquired on purchased contracts are written down.

**2.3.2 Investment contracts without DPF**

*Investment contract fee revenue*

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognized as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognized as the service is provided.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are amortized and recognized as the services are provided.

*Deferred origination costs*

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortized over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.2 Investment contracts without DPF (continued)**

*Investment contract liabilities*

Deposits collected and benefit payments under investment contracts without DPF are not accounted for through profit or loss, but are accounted for directly through the statement of financial position as a movement in the investment contract liability.

The majority of the Group's contracts classified as investment contracts are investment-linked contracts, with measurement 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 under "Investment contract fee revenue" above.

Non investment-linked investment contract liabilities are carried at amortized cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front-end fees, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount.

The unearned revenue liability arising from investment 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. Any adjustment is immediately recognized as income or expense in the consolidated statement of profit or loss and other comprehensive income. The amortized cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

**2.3.3 Insurance and investment contracts**

*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 or investment 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 year. 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.3 Insurance and investment contracts (continued)**

*Reinsurance (continued)*

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 and investment 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.

*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 or investment contract liabilities but are included under "Insurance and other payables" in the consolidated statement of financial position.

**2.3.4 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. The methods used are as follows:

Marine cargo business	25% method
Non-marine cargo business	365 days method

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.3 Insurance and investment contracts (continued)**

**2.3.5 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 Financial Instruments**

**2.4.1 Fair value measurement**

The Group measures its derivative financial instruments, debt instruments classified as available for sale 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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.4 Financial Instruments (continued)**

##### **2.4.2 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, accrued commissions, investment creditors, insurance and other payables, borrowings and derivative financial instruments.

##### **2.4.3 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.3 Subsequent measurement (continued)**

*Financial assets at fair value through profit or loss (continued)*

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.

*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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.3 Subsequent measurement (continued)**

*Available-for-sale financial assets*

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.

**2.4.4 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.4 De-recognition of financial instruments (continued)**

*Financial assets (continued)*

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 expires.

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.

**2.4.5 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.

**2.4.6 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.



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.6 Impairment of financial assets (continued)**

*Financial assets carried at amortized cost (continued)*

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.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Financial Instruments (continued)**

**2.4.7 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.

*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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.4 Financial Instruments (continued)**

##### **2.4.7 Derivative financial instruments and hedge accounting (continued)**

###### *Cash flow hedge(continued)*

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.

##### **2.4.8 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.

#### **2.5 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).

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.5 Foreign currency translation (continued)**

The functional currency 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.

**2.6 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.

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	20-33 $\frac{1}{3}$ %
Computer equipment	20-33 $\frac{1}{3}$ %
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.

**2.7 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.

31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.7 Impairment of non-financial assets (continued)**

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.

**2.8 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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **2.8 Income taxes (continued)**

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.

### **2.9 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.

#### *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.

### **2.10 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.

31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.10 Employee benefits (continued)**

*Retirement benefits schemes-Defined Contribution Plans (continued)*

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.

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 and cash incentive plans*

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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.10 Employee benefits(continued)**

*Share-based compensation and cash incentive plans (continued)*

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.

**2.11 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.

**2.12 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.



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NOTES TO FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.13 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); or
  - (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).

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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.

#### **3.1 Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(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. Hong Kong and Macau 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 24 to the financial statements.

#### **3.2 Estimation and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least 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 14.

(b) 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.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**3.2 Estimation and assumptions (continued)**

(b) Life insurance contract liabilities (continued)

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, 27 and 38.

(c) 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 2.3.4, 27 and 38.

(d) 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 and investment 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 universal life and 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 16.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**3.2 Estimation and assumptions (continued)**

(e) Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF 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 insurance and investment contract liabilities.

(f) 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, 18 and 38.

(g) 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 note 2.4.6 and 18.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**3.2 Estimation and assumptions (continued)**

(h) 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.

(i) 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 methodology to calculate the fair value of share awards. The method requires assumptions that may differ from actual results due to changes in performance and service conditions. Further details of share-based compensation are provided in notes 2.10 and 36.

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. SEGMENT INFORMATION

The reportable segments of the Group correspond to its principal subsidiary legal entities representing the life insurance business and the general insurance business, as follows:

- The life insurance segment provides life insurance products and services to customers in Hong Kong and Macau. Life insurance is the Group's largest business line and comprises traditional participating life insurance products, traditional non-participating life insurance products, accident and health insurance non-participating products, investment-linked insurance products and universal life insurance products.
- The general insurance segment provides a range of general insurance products for individuals and commercial institutions in Hong Kong, including health and medical care insurance, motor insurance, property insurance and marine insurance.

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

	For the year ended 31 December 2014			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	1,010,694	49,165	(466)	1,059,393
Fees and commission income	85,470	3,679	2,851	92,000
Investment income	151,773	2,163	602	154,538
Net realized and fair value gains/(losses) on financial assets	40,681	(39)	(7)	40,635
Other operating revenue	4	-	19	23
<b>TOTAL REVENUE</b>	<b>1,288,622</b>	<b>54,968</b>	<b>2,999</b>	<b>1,346,589</b>
Net benefits and claims	(1,120,324)	(27,473)	1	(1,147,796)
Value of business acquired amortization	(16,070)	(86)	-	(16,156)
Net deferred acquisition cost movement	142,902	157	-	143,059
Finance costs	-	-	(10,495)	(10,495)
Fee and commission expenses	(84,799)	(15,400)	(268)	(100,467)
Depreciation and amortization	(3,545)	(26)	(17)	(3,588)
Other operating and administrative expenses	(138,630)	(7,169)	(14,012)	(159,811)
<b>TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES</b>	<b>(1,220,466)</b>	<b>(49,997)</b>	<b>(24,791)</b>	<b>(1,295,254)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>68,156</b>	<b>4,971</b>	<b>(21,792)</b>	<b>51,335</b>
Income tax expense	(9,761)	321	(312)	(9,752)
<b>NET PROFIT/(LOSS)</b>	<b>58,395</b>	<b>5,292</b>	<b>(22,104)</b>	<b>41,583</b>
OTHER COMPREHENSIVE INCOME, NET OF TAX	254,018	2,121	(1,276)	254,863
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>312,413</b>	<b>7,413</b>	<b>(23,380)</b>	<b>296,446</b>
	31 December 2014			
TOTAL ASSETS	8,450,100	124,037	80,815	8,654,952
TOTAL LIABILITIES	6,339,568	63,132	321,519	6,724,219
TOTAL EQUITY	2,110,532	60,905	(240,704)	1,930,733

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FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. SEGMENT INFORMATION (continued)

US\$'000

	For the period from 13 December 2012 to 31 December 2013			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	777,141	38,116	-	815,257
Fees and commission income	59,409	2,914	1,706	64,029
Investment income	115,790	1,376	263	117,429
Net realized and fair value gains/(losses) on financial assets	(30,186)	136	-	(30,050)
Other operating revenue	27	-	-	27
<b>TOTAL REVENUE</b>	<b>922,181</b>	<b>42,542</b>	<b>1,969</b>	<b>966,692</b>
Net benefits and claims	(853,630)	(19,693)	21	(873,302)
Value of business acquired amortization	(13,842)	(4,477)	-	(18,319)
Net deferred acquisition cost movement	98,135	4,883	-	103,018
Finance costs	-	-	(14,718)	(14,718)
Fee and commission expenses	(56,079)	(12,833)	547	(68,365)
Depreciation and amortization	(2,359)	(7)	(17)	(2,383)
Other operating and administrative expenses	(102,700)	(5,599)	(23,008)	(131,307)
<b>TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES</b>	<b>(930,475)</b>	<b>(37,726)</b>	<b>(37,175)</b>	<b>(1,005,376)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(8,294)</b>	<b>4,816</b>	<b>(35,206)</b>	<b>(38,684)</b>
Income tax expense	43,272	(1,878)	(128)	41,266
<b>NET PROFIT/(LOSS)</b>	<b>34,978</b>	<b>2,938</b>	<b>(35,334)</b>	<b>2,582</b>
OTHER COMPREHENSIVE INCOME, NET OF TAX	(268,027)	(2,059)	40,483	(229,603)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(233,049)</b>	<b>879</b>	<b>5,149</b>	<b>(227,021)</b>
	31 December 2013			
	Life Insurance	General Insurance	Corporate and Others	Total
TOTAL ASSETS	7,041,783	107,615	5,887	7,155,285
TOTAL LIABILITIES	5,283,662	54,098	195,857	5,533,617
TOTAL EQUITY	1,758,121	53,517	(189,970)	1,621,668

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. NET PREMIUMS

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
(a) Gross premiums			
Life insurance contracts		1,078,163	805,476
Non-life insurance contracts		61,439	43,985
Investment contracts with DPF		28,467	30,914
Total gross premiums		<u>1,168,069</u>	<u>880,375</u>
(b) Reinsurers' share of gross premiums			
Life insurance contracts		(96,402)	(59,249)
Non-life insurance contracts		(8,175)	(5,918)
Investment contracts with DPF		-	-
Total reinsurers' share of gross premiums		<u>(104,577)</u>	<u>(65,167)</u>
(c) Change in unearned premiums			
Non-life insurance contracts		(4,099)	49

6. FEES AND COMMISSION INCOME

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Policyholder administration service fees and surrender charges			
Insurance contracts		80,196	56,863
Investment contracts		4,750	3,603
Reinsurance commission income		3,679	2,938
Commission income		3,375	625
		<u>92,000</u>	<u>64,029</u>



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

7. INVESTMENT INCOME

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Interest income from available-for-sale financial assets		121,793	88,195
Interest income from financial assets at fair value through profit or loss		7,407	6,127
Interest income from policy loans		4,715	3,820
Interest income from secured loans		499	551
Interest income from fixed deposits		922	408
Interest income from cash and cash equivalents		293	139
Interest income from other loans and receivables		<u>2,980</u>	<u>2,111</u>
Total interest income		138,609	101,351
Impairment on secured loans			
Reversal of impairment on secured loans		<u>121</u>	<u>102</u>
Total net reversal of impairment		121	102
Dividend income from available-for-sale financial assets		14,606	12,478
Dividend income from financial assets at fair value through profit or loss		3,412	4,340
Others		(1,339)	(851)
Foreign exchange difference		<u>(871)</u>	<u>9</u>
		<u>154,538</u>	<u>117,429</u>

8. NET REALIZED GAINS/(LOSSES) ON FINANCIAL ASSETS

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Realized gains on financial assets			
Available-for-sale financial assets (transfer from Equity)		34,347	691
Financial assets at fair value through profit or loss		7,827	7,222
Derivative financial instruments		179	2,448
Realized losses on financial assets			
Available-for-sale financial assets (transfer from Equity)		(4,116)	(26,340)
Financial assets at fair value through profit or loss		(1,169)	(1,563)
Derivative financial instruments		<u>(1,271)</u>	<u>(535)</u>
		<u>35,797</u>	<u>(18,077)</u>

9. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Fair value gains/(losses) on derivative financial instruments		910	(2,929)
Fair value gains/(losses) on financial assets at fair value through profit or loss		<u>3,928</u>	<u>(9,044)</u>
		<u>4,838</u>	<u>(11,973)</u>

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10. NET BENEFITS AND CLAIMS INCURRED

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
(a) Gross benefits and claims paid			
Life insurance contract benefits and claims paid			
With DPF		237,237	193,346
Without DPF		<u>91,502</u>	<u>126,893</u>
Total life insurance contract benefits and claims paid		328,739	320,239
Non-life insurance contract benefits and claims paid		24,818	19,151
Investment contracts with DPF benefits and claims paid		<u>43,702</u>	<u>23,044</u>
Total gross benefits and claims paid		<u><u>397,259</u></u>	<u><u>362,434</u></u>
(b) Reinsurers' share of gross benefits and claims paid			
Reinsurers' share of life insurance contract benefits and claims paid			
With DPF		(3,838)	(3,495)
Without DPF		<u>(807)</u>	<u>(431)</u>
Total reinsurers' share of life insurance contract benefits and claims paid		(4,645)	(3,926)
Reinsurers' share of non-life insurance contract benefits and claims paid		<u>(1,288)</u>	<u>(1,627)</u>
Total reinsurers' share of benefits and claims paid		<u><u>(5,933)</u></u>	<u><u>(5,553)</u></u>
(c) Gross change in contract liabilities			
Change in life insurance contract liabilities			
With DPF		777,034	494,550
Without DPF		<u>69,450</u>	<u>66,736</u>
Total change in life insurance contract liabilities		846,484	561,286
Change in non-life insurance contracts liabilities		3,971	1,858
Change in investment contract liabilities with DPF		<u>(9,903)</u>	<u>13,821</u>
Total gross change in contract liabilities		<u><u>840,552</u></u>	<u><u>576,965</u></u>
(d) Reinsurer's share of gross change in contract liabilities			
Reinsurer's share of change in life insurance contract liabilities			
With DPF		-	-
Without DPF		<u>(84,060)</u>	<u>(60,855)</u>
Reinsurers' share of change in non-life insurance contracts liabilities		<u>(22)</u>	<u>311</u>
Total reinsurers' share of gross change in contract liabilities		<u><u>(84,082)</u></u>	<u><u>(60,544)</u></u>
Total net benefits and claims		<u><u>1,147,796</u></u>	<u><u>873,302</u></u>

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11. FEE AND COMMISSION EXPENSES

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Insurance contracts			
-Commission expenses		100,299	68,243
Investment contracts			
-Management fee to investment manager		<u>168</u>	<u>122</u>
		<u>100,467</u>	<u>68,365</u>

12. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Acquisition related transaction costs		-	19,614
Advertising and marketing expenses		12,651	10,943
Auditor's remuneration		951	972
Bank charges and other service fees		7,437	8,566
Commission related expenses		62,125	45,842
Employee benefit expenses			
Salaries and allowances		38,069	31,955
Share-based payment expenses	36	12,619	-
Forfeited share-based payment expenses		-	(168)
Pension contribution		1,516	1,551
Other staff costs		2,811	2,351
Office related expenses		4,417	3,349
Operating leases rental		11,226	7,480
Others		6,054	561
Foreign exchange differences, net		<u>(65)</u>	<u>(1,709)</u>
Total		<u>159,811</u>	<u>131,307</u>

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13. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

US\$'000	Notes	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Current – Hong Kong			
Charge for the period		(132)	(1,410)
(Under-provision)/Over-provision in prior years		(848)	6
Current – Elsewhere		-	-
Deferred	24	<u>(8,772)</u>	<u>42,670</u>
		<u>(9,752)</u>	<u>41,266</u>

A reconciliation of the tax credit/expense applicable to profit/(loss) before tax at the statutory rate 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	For the year ended 31 December 2014	%
Profit before tax	<u>51,335</u>	
Tax at the statutory tax rate	(8,470)	(16.5)
Income not subject to tax	5,312	10.3
VOBA amortization not subject to tax	(2,571)	(5.0)
Tax losses not recognized	(3,977)	(7.7)
Temporary difference not recognized	829	1.6
Adjustment in respect of current tax of previous periods	(848)	(1.6)
Others	<u>(27)</u>	<u>(0.1)</u>
	<u>(9,752)</u>	<u>(19.0)</u>

US\$'000	Notes	For the period from 13 December 2012 to 31 December 2013	%
Loss before tax		<u>( 38,684)</u>	
Tax at the statutory tax rate		6,383	(16.5)
Income not subject to tax		4,774	(12.3)
VOBA amortization not subject to tax		(3,023)	7.8
Expenses not deductible for tax		(233)	0.6
Tax losses not recognized		(5,980)	15.4
Temporary difference not recognized		(7)	0.0
Recognition of deferred tax assets for tax losses			
Incurred in prior years	24	42,670	(110.3)
Adjustment in respect of current tax of previous periods		6	(0.0)
Others		<u>(3,324)</u>	<u>8.6</u>
		<u>41,266</u>	<u>(106.7)</u>

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14. GOODWILL

US\$'000	2014	2013
At beginning of year/period		
Cost	902,057	-
Accumulated impairment	-	-
Net carrying amount	<u>902,057</u>	<u>-</u>
Cost at beginning of year/period, net of accumulated impairment	902,057	-
Acquisition of subsidiaries (note 32)	-	902,057
Impairment provided during the year/period	-	-
Foreign exchange difference	-	-
Net carrying amount	<u>902,057</u>	<u>902,057</u>
At end of year/period		
Cost	902,057	902,057
Accumulated impairment	-	-
Net carrying amount	<u>902,057</u>	<u>902,057</u>

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

- FWD Life Insurance Company (Bermuda) Limited
- FWD Life Insurance Company (Macau) Limited

The recoverable amounts of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited have 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. No impairment loss has been recognized during the year as impairment test is passed at Level III for the cash generating unit.

The key assumptions used for the value in use impairment calculation of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited are:

- Risk discount rate of 8.5% (2013: 8.5%) which is in line with industry average
- Current investment return assumptions of 4.51% (2013: 4.69%) and 4.72% (2013: 4.91%) for in-force and new business, respectively, of the general account, progressively increasing to 5.35% as the ultimate investment return assumption. The investment return assumption for the separate account is 6.56% (2013: 6.56%).
- A VNB multiplier calculated using projected new sales over the next 15 years (2013: 15 years) at a discount rate of 8.5% (2013: 8.5%).

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NOTES TO FINANCIAL STATEMENTS

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14. GOODWILL (continued)

*Sensitivity to changes in assumptions*

For the risk discount rate assumption, a 157bps (2013: 51bps) 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 value in use of the cash generating unit to exceed the carrying amount by US\$129.6m (2013: US\$98.7m).

For the investment return assumption, a 66bps (2013: 25bps) reduction would give a value in use equal to the carrying amount of the cash generating unit. A 50bps reduction in the investment return assumption would cause the value in use of the cash generating unit to exceed the carrying amount by US\$87.2m (2013: US\$111.9m).

For the VNB multiplier assumption, a reduction of the VNB multiplier by approximately 5.5 years (2013: 2 years) would give a value in use equal to the carrying amount of the cash generating unit.

The Group recognizes the fact that an unfavorable change in any of these assumptions could materially affect the recoverability of goodwill.

15. VALUE OF BUSINESS ACQUIRED

US\$'000	2014	2013
At beginning of year/period	591,394	-
Acquisition of subsidiaries (note 32)	-	609,713
Effect of regrouping	16,118	-
Amortization during the year/period	(16,156)	(18,319)
Foreign exchange difference	4	-
At end of year/period	<u>591,360</u>	<u>591,394</u>

It was noted that certain limited payment products were grouped as insurance contracts while certain other regular payment products were grouped as investment contracts. The effect of regrouping these products is an increase in insurance contract liabilities of US\$16,118,000 and an increase in VOBA of US\$16,118,000, with no impact to the consolidated statement of profit or loss and other comprehensive income.

16. DEFERRED ACQUISITION COST

US\$'000	2014		
	Gross	Reinsurers' share	Net
At beginning of year	104,384	(1,364)	103,020
Expenses deferred	158,033	(123)	157,910
Amortization during the year	(14,851)	-	(14,851)
Foreign exchange difference	(13)	-	(13)
At end of year	<u>247,553</u>	<u>(1,487)</u>	<u>246,066</u>

US\$'000	2013		
	Gross	Reinsurers' share	Net
At beginning of period	-	-	-
Expenses deferred	116,000	(1,363)	114,637
Amortization during the period	(11,619)	-	(11,619)
Foreign exchange difference	3	(1)	2
At end of period	<u>104,384</u>	<u>(1,364)</u>	<u>103,020</u>

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17. PLANT AND EQUIPMENT

US\$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Total
<b>31 December 2014</b>					
At 31 December 2013 :					
Cost	4,368	208	606	1,723	6,905
Accumulated depreciation	<u>(1,418)</u>	<u>(39)</u>	<u>(135)</u>	<u>(791)</u>	<u>(2,383)</u>
Net carrying amount	<u>2,950</u>	<u>169</u>	<u>471</u>	<u>932</u>	<u>4,522</u>
At 31 December 2013, net of accumulated depreciation					
	2,950	169	471	932	4,522
Additions	6,094	-	1,116	3,615	10,825
Disposals	-	-	(36)	(6)	(42)
Depreciation provided during the year	<u>(2,364)</u>	<u>(48)</u>	<u>(261)</u>	<u>(915)</u>	<u>(3,588)</u>
At 31 December 2014, net of accumulated depreciation					
	<u>6,680</u>	<u>121</u>	<u>1,290</u>	<u>3,626</u>	<u>11,717</u>
At 31 December 2014:					
Cost	10,462	208	1,561	5,308	17,539
Accumulated depreciation	<u>(3,782)</u>	<u>(87)</u>	<u>(271)</u>	<u>(1,682)</u>	<u>(5,822)</u>
Net carrying amount	<u>6,680</u>	<u>121</u>	<u>1,290</u>	<u>3,626</u>	<u>11,717</u>
<b>31 December 2013</b>					
At 13 December 2012, net of accumulated depreciation					
	-	-	-	-	-
Additions	2,229	96	92	323	2,740
Acquisition of subsidiaries (note 32)	2,139	112	514	1,400	4,165
Depreciation provided during the period	<u>(1,418)</u>	<u>(39)</u>	<u>(135)</u>	<u>(791)</u>	<u>(2,383)</u>
At 31 December 2013, net of accumulated depreciation					
	<u>2,950</u>	<u>169</u>	<u>471</u>	<u>932</u>	<u>4,522</u>
At 31 December 2013:					
Cost	4,368	208	606	1,723	6,905
Accumulated depreciation	<u>(1,418)</u>	<u>(39)</u>	<u>(135)</u>	<u>(791)</u>	<u>(2,383)</u>
Net carrying amount	<u>2,950</u>	<u>169</u>	<u>471</u>	<u>932</u>	<u>4,522</u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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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 year. 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 with the various ratings.

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



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18. FINANCIAL ASSETS (continued)

18.1 Available-for-sale financial assets

**Debt securities**

US\$'000

At 31 December 2014

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
<b>Government bonds</b>						
<b>- issued in local currency</b>						
Hong Kong	AAA	-	25,679	283	10,723	36,685
United States	AA	460,637	479,131	-	259,628	1,199,396
Sub-total		<u>460,637</u>	<u>504,810</u>	<u>283</u>	<u>270,351</u>	<u>1,236,081</u>
<b>Government bonds</b>						
<b>- issued in foreign currency</b>						
South Korea	A	11,760	45,901	-	-	57,661
Qatar	AA	3,095	22,638	-	1,093	26,826
Netherlands	AA	7,604	5,086	-	574	13,264
China	AA	4,905	10,088	-	653	15,646
United Arab Emirates	AA	4,803	-	-	-	4,803
Cayman Islands	AA	6,634	6,491	-	2,288	15,413
Singapore	AAA	1,662	24,030	-	-	25,692
Sub-total		<u>40,463</u>	<u>114,234</u>	<u>-</u>	<u>4,608</u>	<u>159,305</u>
<b>Government agency bonds<sup>(1)</sup></b>						
AAA		-	-	-	2,416	2,416
AA		-	8,224	-	2,886	11,110
Sub-total		<u>-</u>	<u>8,224</u>	<u>-</u>	<u>5,302</u>	<u>13,526</u>
<b>Corporate bonds</b>						
AAA		21,347	66,509	564	2,908	91,328
AA		151,091	476,746	13,066	21,963	662,866
A		603,027	1,019,283	10,584	33,424	1,666,318
BBB		338,263	254,603	3,950	2,395	599,211
Below investment grade		16,110	10,883	-	1,050	28,043
Sub-total		<u>1,129,838</u>	<u>1,828,024</u>	<u>28,164</u>	<u>61,740</u>	<u>3,047,766</u>
<b>Structured securities<sup>(2)</sup></b>						
AAA		1,527	-	-	-	1,527
Sub-total		<u>1,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,527</u>

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

(2) Structured securities include collateralized debt obligations, mortgage-backed securities and other asset-backed securities.

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18. FINANCIAL ASSETS (continued)

**18.1 Available-for-sale financial assets (continued)**

**Equity securities**

US\$'000

At 31 December 2014

	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Equity shares - Listed	-	58,418	-	71,051	129,469
Equity shares - Unlisted	-	44,911	-	10,744	55,655
Interest in investments funds	-	26,751	-	-	26,751
Sub-total	-	130,080	-	81,795	211,875
<b><u>Others</u></b>					
Certificate of deposits	-	-	-	22,594	22,594
Others	-	80	-	146	226
Sub-total	-	80	-	22,740	22,820
<b>Total Available-for-sale financial assets</b>	<b>1,632,465</b>	<b>2,585,452</b>	<b>28,447</b>	<b>446,536</b>	<b>4,692,900</b>

31 December 2014

## 18. FINANCIAL ASSETS (continued)

## 18.1 Available-for-sale financial assets (continued)

**Debt securities**

US\$'000

At 31 December 2013

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
<b>Government bonds</b>						
<b>- issued in local currency</b>						
Hong Kong	AAA	-	27,740	1,854	9,782	39,376
United States	AA	17,303	389,936	-	163,791	571,030
Sub-total		<u>17,303</u>	<u>417,676</u>	<u>1,854</u>	<u>173,573</u>	<u>610,406</u>
<b>Government bonds</b>						
<b>- issued in foreign currency</b>						
South Korea	A	5,901	43,715	-	244	49,860
Qatar	AA	3,084	20,112	-	1,726	24,922
Netherlands	AA	7,421	4,081	-	882	12,384
China	AA	-	5,295	-	-	5,295
United Arab Emirates	AA	-	4,857	-	-	4,857
Sub-total		<u>16,406</u>	<u>78,060</u>	<u>-</u>	<u>2,852</u>	<u>97,318</u>
<b>Government agency bonds<sup>(1)</sup></b>						
AAA		-	-	-	1,559	1,559
AA		3,339	8,253	-	4,304	15,896
A		-	-	-	536	536
Sub-total		<u>3,339</u>	<u>8,253</u>	<u>-</u>	<u>6,399</u>	<u>17,991</u>
<b>Corporate bonds</b>						
AAA		2,047	100,918	555	7,502	111,022
AA		80,922	408,252	13,322	32,593	535,089
A		470,003	956,438	23,900	78,707	1,529,048
BBB		321,688	188,075	3,992	12,058	525,813
Below investment grade		-	9,301	-	-	9,301
Sub-total		<u>874,660</u>	<u>1,662,984</u>	<u>41,769</u>	<u>130,860</u>	<u>2,710,273</u>
<b>Structured securities<sup>(2)</sup></b>						
AAA		-	1,580	-	-	1,580
A		-	473	-	-	473
Sub-total		<u>-</u>	<u>2,053</u>	<u>-</u>	<u>-</u>	<u>2,053</u>

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

(2) Structured securities include collateralized debt obligations, mortgage-backed securities and other asset-backed securities.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. FINANCIAL ASSETS (continued)

**18.1 Available-for-sale financial assets (continued)**

**Equity securities**

US\$'000

At 31 December 2013

	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Equity shares - Listed	-	79,642	-	100,827	180,469
Equity shares - Unlisted	-	32,867	-	13,560	46,427
Interest in investments funds	-	48,193	-	-	48,193
Sub-total	-	<u>160,702</u>	-	<u>114,387</u>	<u>275,089</u>
<b><u>Others</u></b>					
Certificate of deposits	-	-	-	21,194	21,194
Others	-	80	-	142	222
Sub-total	-	<u>80</u>	-	<u>21,336</u>	<u>21,416</u>
<b>Total Available-for-sale financial assets</b>	<u>911,708</u>	<u>2,329,808</u>	<u>43,623</u>	<u>449,407</u>	<u>3,734,546</u>

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\$310,759,000 (2013: a decrease of US\$244,549,000). Net realized gains of US\$30,231,000 (2013: net realized losses of US\$25,649,000) with nil impairment loss (2013: nil) were reclassified from other comprehensive income to profit or loss.

Bonds of US\$117,149,000 (2013: US\$89,626,000) were used to guarantee the insurance reserve at 31 December 2014 as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. FINANCIAL ASSETS (continued)

**18.2 Financial assets at fair value through profit or loss**

**Debt securities**

US\$'000

At 31 December 2014

		Policyholder and shareholder Deposit administration	Investment-Linked	Total
<b>Government bonds</b>				
<b>- issued in local currency</b>				
Hong Kong	AAA	9,758	-	9,758
Sub-total		<u>9,758</u>	<u>-</u>	<u>9,758</u>
<b>Government bonds</b>				
<b>- issued in foreign currency</b>				
South Korea	A	2,363	-	2,363
Qatar	AA	573	-	573
China	AA	1,305	-	1,305
Cayman Islands	AA	990	-	990
Sub-total		<u>5,231</u>	<u>-</u>	<u>5,231</u>
<b>Government agency bonds<sup>(1)</sup></b>				
AAA		1,597	-	1,597
AA		2,368	-	2,368
Sub-total		<u>3,965</u>	<u>-</u>	<u>3,965</u>
<b>Corporate bonds</b>				
AAA		18,842	-	18,842
AA		88,074	-	88,074
A		128,760	-	128,760
BBB		406	-	406
Below investment grade		3,528	-	3,528
Sub-total		<u>239,610</u>	<u>-</u>	<u>239,610</u>

(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

At 31 December 2014

		Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed		40,986	-	40,986
Equity shares - Unlisted		19,364	-	19,364
Interest in investments funds		-	869,037	869,037
Sub-total		<u>60,350</u>	<u>869,037</u>	<u>929,387</u>
<b>Total financial assets at fair value through profit or loss</b>		<u>318,914</u>	<u>869,037</u>	<u>1,187,951</u>

All financial assets at fair value through profit or loss at 31 December 2014 were classified as held for trading.

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18. FINANCIAL ASSETS (continued)

**18.2 Financial assets at fair value through profit or loss (continued)**

**Debt securities**

US\$'000

At 31 December 2013

		Policyholder and shareholder Deposit administration	Investment-Linked	Total
<b>Government bonds</b>				
<b>- issued in local currency</b>				
Hong Kong	AAA	6,183	-	6,183
Sub-total		<u>6,183</u>	<u>-</u>	<u>6,183</u>
<b>Government bonds</b>				
<b>- issued in foreign currency</b>				
Qatar	AA	557	-	557
Sub-total		<u>557</u>	<u>-</u>	<u>557</u>
<b>Government agency bonds<sup>(1)</sup></b>				
AAA		1,626	-	1,626
AA		4,631	-	4,631
Sub-total		<u>6,257</u>	<u>-</u>	<u>6,257</u>
<b>Corporate bonds</b>				
AAA		19,846	-	19,846
AA		66,359	-	66,359
A		132,447	-	132,447
BBB		8,858	-	8,858
Sub-total		<u>227,510</u>	<u>-</u>	<u>227,510</u>

(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

At 31 December 2013

	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	39,754	-	39,754
Equity shares - Unlisted	17,225	-	17,225
Interest in investments funds	-	799,160	799,160
Sub-total	<u>56,979</u>	<u>799,160</u>	<u>856,139</u>
<b>Total financial assets at fair value through profit or loss</b>	<u>297,486</u>	<u>799,160</u>	<u>1,096,646</u>

**18.3 Loans and receivables**

US\$'000

	2014	2013
Policy loans	61,792	59,610
Secured loans	15,725	17,638
Accreting deposits	57,711	49,978
Provision for impairment	(342)	(463)
At end of year/period	<u>134,886</u>	<u>126,763</u>

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. FINANCIAL ASSETS (continued)

**18.3 Loans and receivables (continued)**

No provision for impairment is necessary in respect of the policy loans made to policyholders as they are secured by the policies' cash surrender values. 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 carrying amounts of the policy loans approximate to their fair values. The policy loans bear interest at 9% (2013: 9%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses. The carrying amounts of secured loans approximate to their fair values.

The movements in provision for impairment of secured loans are as follows:

US\$'000	Note	2014	2013
At beginning of year/period		(463)	-
Acquisition of subsidiaries		-	(565)
Impairment charge for the year/period		121	102
At end of year/period		<u>(342)</u>	<u>(463)</u>

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquency in repayment. The gross amount of the loans was US\$15,725,000 (2013: US\$17,639,000) with a carrying amount of US\$15,383,000 (2013: US\$17,176,000).

Accreting deposits are carried at amortized cost less any impairment losses. The carrying amounts of accreting deposits approximate to their fair values.

**18.4 Derivative financial investments**

The Group had the following derivative financial instruments outstanding as at the end of the reporting period.

US\$'000	<u>Contract/notional Amount</u>	<u>Carrying Amount</u> Assets	<u>Carrying Amount</u> Liabilities
At 31 December 2014	<u>1,055,600</u>	<u>3,512</u>	<u>4,038</u>
At 31 December 2013	<u>1,043,700</u>	<u>1,163</u>	<u>2,598</u>

The carrying amounts of the derivative financial instruments are equal to their fair values and all derivative are classified as current.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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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 period are as follows:

31 December 2014

Financial assets

US\$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	22,820	134,886	157,706
Debt securities	258,564	4,458,205	-	4,716,769
Equity securities	929,387	211,875	-	1,141,262
Derivative financial instruments	3,512	-	-	3,512
Deposits and other assets	-	-	74,683	74,683
Insurance receivables	-	-	48,260	48,260
Due from related parties	-	-	5,112	5,112
Pledged deposits	-	-	11,256	11,256
Cash and cash equivalents	-	-	446,490	446,490
	<u>1,191,463</u>	<u>4,692,900</u>	<u>720,687</u>	<u>6,605,050</u>

Financial liabilities

US\$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Financial liabilities			
Investment contract liabilities	707,164	-	707,164
Borrowings	-	321,247	321,247
Derivative financial instruments	4,038	-	4,038
Insurance and other payables	-	69,953	69,953
Accrued commissions	-	79,740	79,740
Investment creditors	-	62,982	62,982
Due to related parties	-	34,857	34,857
Tax payable	-	711	711
	<u>711,202</u>	<u>569,490</u>	<u>1,280,692</u>



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

19. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2013

Financial assets

US\$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	21,416	126,763	148,179
Debt securities	240,507	3,438,041	-	3,678,548
Equity securities	856,139	275,089	-	1,131,228
Derivative financial instruments	1,163	-	-	1,163
Deposits and other assets	-	-	56,972	56,972
Insurance receivables	-	-	64,795	64,795
Due from related parties	-	-	3,783	3,783
Pledged deposits	-	-	11,189	11,189
Cash and cash equivalents	-	-	252,546	252,546
	<u>1,097,809</u>	<u>3,734,546</u>	<u>516,048</u>	<u>5,348,403</u>

Financial liabilities

US\$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Financial liabilities			
Investment contract liabilities	640,705	-	640,705
Borrowings	-	202,000	202,000
Derivative financial instruments	2,598	-	2,598
Insurance and other payables	-	49,185	49,185
Accrued commissions	-	47,717	47,717
Investment creditors	-	21,855	21,855
Due to related parties	-	33,086	33,086
Tax payable	-	985	985
	<u>643,303</u>	<u>354,828</u>	<u>998,131</u>

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of 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 payables, accrued commissions and investment creditors 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.

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

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20. FAIR VALUE 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. In 2013 and 2014, 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, including forward currency contracts and equity swaps, 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 forward currency contracts and equity swaps are the same as their fair values.

21. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

At 31 December 2014

	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
US\$'000					
Available-for-sale financial assets	18.1	1,342,310	3,294,897	55,693	4,692,900
Financial assets at fair value through profit or loss	18.2	910,699	257,888	19,364	1,187,951
Derivative financial instruments	18.4	-	3,512	-	3,512
		<u>2,253,009</u>	<u>3,556,297</u>	<u>75,057</u>	<u>5,884,363</u>

At 31 December 2013

	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
US\$'000					
Available-for-sale financial assets	18.1	801,907	2,886,173	46,466	3,734,546
Financial assets at fair value through profit or loss	18.2	838,914	240,507	17,225	1,096,646
Derivative financial instruments	18.4	-	1,163	-	1,163
		<u>1,640,821</u>	<u>3,127,843</u>	<u>63,691</u>	<u>4,832,355</u>

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31 December 2014

21. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

At 31 December 2014

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Derivative financial instruments	18.4	-	4,038	-	4,038

At 31 December 2013

US\$'000	Notes	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Derivative financial instruments	18.4	-	2,598	-	2,598

The movement in the fair value measurement in the Group's Level 3 financial assets during the year is as follows:

US\$'000	Note	2014	2013
Financial assets - unlisted			
At beginning of year/period		63,691	-
Fair value change recognized through profit or loss		2,139	53,498
Fair value change recognized in other comprehensive income		(564)	(803)
Purchases/(Disposals)		9,791	10,996
At end of year/period		<u>75,057</u>	<u>63,691</u>

During the year, there were no transfers of financial instruments between Level 1 and Level 2, and no transfers into or out of Level 3.

22. REINSURANCE ASSETS

US\$'000	Note	2014	2013
Reinsurers' share of insurance contract liabilities	27	<u>251,563</u>	<u>167,465</u>
Current reinsurance assets		<u>251,563</u>	<u>167,465</u>

23. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US\$'000	2014	2013
Accounts receivable	15,892	11,615
Accrued investment income	42,290	38,415
Deposits	5,231	4,238
Intangible assets	35,457	-
Prepayments	10,195	6,230
Other assets	11,270	2,704
Total prepayments, deposits and other assets	<u>120,335</u>	<u>63,202</u>

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The intangible assets represent retention fees paid to agents under a retention program launched in 2014.

24. DEFERRED TAX

The movement in deferred tax assets/(liabilities) during the period is as follows:

US\$'000		Insurance contract liabilities	Deferred acquisition cost	Revaluation of available-for-sale financial assets	Tax losses and other temporary differences	Total
	Notes					
At 1 January 2014		38,586	(17,057)	(12,195)	21,222	30,556
Deferred tax credited/(charged) to profit or loss	13	(35,901)	(23,357)	-	50,486	(8,772)
Deferred tax credited/(charged) to other comprehensive Income		-	-	(24,063)	-	(24,063)
Foreign exchange difference		(148)	1,032	(390)	(426)	68
At 31 December 2014		<u>2,537</u>	<u>(39,382)</u>	<u>(36,648)</u>	<u>71,282</u>	<u>(2,211)</u>

US\$'000		Insurance contract liabilities	Deferred acquisition cost	Revaluation of available-for-sale financial assets	Tax losses and other temporary differences	Total
	Notes					
At 13 December 2012		-	-	-	-	-
Acquisition of subsidiaries	32	-	-	(869)	179	(690)
Deferred tax credited/(charged) to profit or loss	13	38,586	(17,057)	-	21,141	42,670
Deferred tax credited/(charged) to other comprehensive income		-	-	(12,092)	(96)	(12,188)
Foreign exchange difference		-	-	766	(2)	764
At 31 December 2013		<u>38,586</u>	<u>(17,057)</u>	<u>(12,195)</u>	<u>21,222</u>	<u>30,556</u>

In 2014, the negative balances shown above represent deferred tax liabilities which offset deferred tax assets relating to tax within the jurisdiction of the same tax authority. In 2013, the positive balances shown above of USD30,556,000 represent deferred tax assets of USD30,830,000 and deferred tax liabilities of USD274,000.

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

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25. INSURANCE RECEIVABLES

US\$'000	2014	2013
Due from policyholders	31,680	27,985
Due from reinsurers	9,017	8,240
Premium deposit fund under reinsurance arrangement	<u>7,563</u>	<u>28,570</u>
Total insurance receivables	<u>48,260</u>	<u>64,795</u>
Current insurance receivables	<u><u>48,260</u></u>	<u><u>64,795</u></u>

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as if and when the total indebtedness on any policy exceeds the cash surrender value, the policy terminates and becomes void. The carrying amounts of the balances with policyholders approximate to their fair values.

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 the balances with reinsurers approximate to their fair values.

Premium deposit fund under reinsurance arrangement represents a premium deposit made with the reinsurer on which interest is accrued. Renewal reinsurance premiums payable to the reinsurer under the policy are deducted from the premium deposit fund on each policy anniversary. The carrying amount of the premium deposit fund under reinsurance arrangement approximates to its fair value.

26. CASH AND CASH EQUIVALENTS

US\$'000	2014	2013
Time deposits	75,369	109,341
Savings accounts	320,317	92,508
Current accounts	62,057	60,675
Cash on hand	<u>3</u>	<u>1,211</u>
	<u>457,746</u>	<u>263,735</u>
Less: Pledged time deposits	<u>(11,256)</u>	<u>(11,189)</u>
Cash and cash equivalents	<u><u>446,490</u></u>	<u><u>252,546</u></u>

Time deposits of USD11,256,000 (2013: USD11,189,000) were used to guarantee the insurance reserve as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

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 38 to the financial statements.

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

27. INSURANCE CONTRACT LIABILITIES

US\$'000		2014		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	5,386,745	(247,109)	5,139,636
Non-life insurance contracts	(b)	53,084	(4,454)	48,630
Total insurance contract liabilities		<u>5,439,829</u>	<u>(251,563)</u>	<u>5,188,266</u>

US\$'000		2013		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	4,488,932	(163,145)	4,325,787
Non-life insurance contracts	(b)	44,916	(4,320)	40,596
Total insurance contract liabilities		<u>4,533,848</u>	<u>(167,465)</u>	<u>4,366,383</u>

(a) Life insurance contract

The movement of insurance liabilities under life insurance contracts is as follows:

US\$'000		2014		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2014		4,488,932	(163,145)	4,325,787
Valuation premiums and deposits received		1,085,046	(86,899)	998,147
Expected investment return		95,083	(6,478)	88,605
Liabilities released for death, maturities, surrenders and other benefit payments		(333,097)	1,139	(331,958)
Fees deducted		(71,675)	1,772	(69,903)
Interest accrued and change in unit price		58,313	(425)	57,888
Effect of regrouping		16,118	-	16,118
Foreign exchange movements		(8,064)	-	(8,064)
Other movement		56,089	6,927	63,016
At 31 December 2014		<u>5,386,745</u>	<u>(247,109)</u>	<u>5,139,636</u>

US\$'000		2013		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 13 December 2012		-	-	-
Acquisition of subsidiaries		3,867,478	(102,290)	3,765,188
Valuation premiums and deposits received		850,020	(54,492)	795,528
Expected investment return		70,680	(3,892)	66,788
Liabilities released for death, maturities, surrenders and other benefit payments		(316,404)	309	(316,095)
Fees deducted		(50,490)	-	(50,490)
Interest accrued and change in unit price		39,549	-	39,549
Foreign exchange movements		6,124	(2,828)	3,296
Other movement		21,975	48	22,023
At 31 December 2013		<u>4,488,932</u>	<u>(163,145)</u>	<u>4,325,787</u>

Reinsurance assets and insurance receivables are set out in notes 22 and 25.

It was noted that certain limited payment products were grouped as insurance contracts while certain other regular payment products were grouped as investment contracts. The effect of regrouping these products is an increase in insurance contract liabilities of US\$16,118,000 and an increase in VOBA of US\$16,118,000, with no impact to the statement of comprehensive income.

31 December 2014

27. INSURANCE CONTRACT LIABILITIES (continued)

**Business description**

The table below summarizes the key variables underlying life insurance and investment 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.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Lapses</li> <li>• Morbidity</li> <li>• Dividend / bonus rates</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Partial withdrawals</li> <li>• Premium holidays</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>
Universal Life	Universal Life contracts combine savings with protection. Account balances are credited with interest at a rate set by the insurer.	Benefits are based on the account balance and death and living benefits.	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Crediting rates</li> <li>• Lapses</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>

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## 27. INSURANCE CONTRACT LIABILITIES (continued)

**Methodology and assumptions**

The most significant items impacting profit or loss for the year 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 year 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.

Type of contract	Market and credit risk		Indirect exposure	Significant insurance and lapse risks
	Direct exposure			
	Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life assurance with DPF	<ul style="list-style-type: none"> <li>Net neutral except for the insurer's share of participating investment performance</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral except for the insurer's share of participating investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Impact of persistency on future dividends</li> <li>Mortality</li> <li>Morbidity</li> </ul>
Traditional non-participating life assurance	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Asset-liability mismatch risk</li> <li>Credit Risk</li> <li>Investment performance</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Mortality</li> <li>Persistency</li> <li>Morbidity</li> </ul>
Accident and health non-participating	<ul style="list-style-type: none"> <li>Loss ratio</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Credit risk</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Morbidity</li> <li>Persistency</li> </ul>
Pension	<ul style="list-style-type: none"> <li>Net neutral except minimum crediting rate is zero</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral except minimum crediting rate is zero</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Performance related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Persistency</li> </ul>
Investment-Linked	<ul style="list-style-type: none"> <li>Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Morbidity</li> <li>Persistency</li> <li>Partial withdrawal</li> </ul>
Universal Life	<ul style="list-style-type: none"> <li>Guarantees</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Credit risk</li> <li>Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>Spread between earned rate and crediting rate to policyholders</li> </ul>	<ul style="list-style-type: none"> <li>Morbidity</li> <li>Persistency</li> <li>Partial withdrawal</li> </ul>

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 and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.



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27. INSURANCE CONTRACT LIABILITIES (continued)

(b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US\$'000		2014		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
	Notes			
Provision for claims reported by policyholders		19,011	(2,017)	16,994
Provision for claims incurred but not reported ("IBNR")		<u>7,417</u>	<u>27</u>	<u>7,444</u>
Total claims reported and IBNR	(i)	26,428	(1,990)	24,438
Provision for unearned premiums	(ii)	<u>26,656</u>	<u>(2,464)</u>	<u>24,192</u>
Total non-life insurance contract liabilities		<u>53,084</u>	<u>(4,454)</u>	<u>48,630</u>
US\$'000		2013		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		15,746	(1,978)	13,768
Provision for claims incurred but not reported ("IBNR")		<u>6,717</u>	<u>10</u>	<u>6,727</u>
Total claims reported and IBNR	(i)	22,463	(1,968)	20,495
Provision for unearned premiums	(ii)	<u>22,453</u>	<u>(2,352)</u>	<u>20,101</u>
Total non-life insurance contract liabilities		<u>44,916</u>	<u>(4,320)</u>	<u>40,596</u>

(i) The provision for claims reported by policyholders and IBNR is as follows:

US\$'000		2014		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
	Notes			
At 1 January 2014		22,463	(1,968)	20,495
Claims incurred in the year		28,783	(1,310)	27,473
Claims recovered/(paid) during the year	10	<u>(24,818)</u>	<u>1,288</u>	<u>(23,530)</u>
At 31 December 2014		<u>26,428</u>	<u>(1,990)</u>	<u>24,438</u>
US\$'000		2013		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 13 December 2012		-	-	-
Acquisition of subsidiaries		20,605	(2,279)	18,326
Claims incurred in the period		21,009	(1,316)	19,693
Claims recovered/(paid) during the period	10	<u>(19,151)</u>	<u>1,627</u>	<u>(17,524)</u>
At 31 December 2013		<u>22,463</u>	<u>(1,968)</u>	<u>20,495</u>

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27. INSURANCE CONTRACT LIABILITIES (continued)

(ii) The provision for unearned premiums is as follows:

US\$'000		2014		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
	Notes			
At 1 January 2014		22,453	(2,352)	20,101
Premiums written in the year	5	61,439	(8,175)	53,264
Premiums earned during the year		(57,228)	8,063	(49,165)
Foreign exchange difference		(8)	-	(8)
At 31 December 2014		<u>26,656</u>	<u>(2,464)</u>	<u>24,192</u>

US\$'000		2013		
		Insurance contract liabilities	Reinsurers' share of liabilities	Net
	Notes			
At 13 December 2012		-	-	-
Acquisition of subsidiaries		22,433	(2,283)	20,150
Premiums written in the period	5	43,985	(5,918)	38,067
Premiums earned during the period		(43,965)	5,849	(38,116)
At 31 December 2013		<u>22,453</u>	<u>(2,352)</u>	<u>20,101</u>

28. INVESTMENT CONTRACT LIABILITIES

US\$'000		2014		2013	
		Gross and net investment contract liabilities	Gross and net investment contract liabilities	Gross and net investment contract liabilities	Gross and net investment contract liabilities
	Notes				
Investment contract liabilities with DPF	(a)	400,729		410,632	
Investment contract liabilities without DPF	(b)	306,435		230,073	
Total investment contract liabilities		<u>707,164</u>		<u>640,705</u>	

The movement of investment contract liabilities is as follows:

(a) Investment contract liabilities with DPF

Gross and net investment contract liabilities		2014	2013
At beginning of year/period		410,632	-
Acquisition of subsidiaries		-	404,079
Premium received		42,966	30,541
Surrenders and withdrawals		(49,755)	(23,284)
Interest accrued and change in unit price		5,464	3,435
Others		(8,578)	(4,139)
At end of year/period		<u>400,729</u>	<u>410,632</u>

(b) Investment contract liabilities without DPF

Gross and net investment contract liabilities		2014	2013
At beginning of year/period		230,073	-
Acquisition of subsidiaries		-	155,795
Premium received		87,480	87,126
Surrenders and withdrawals		(17,663)	(10,459)
Net investment income		1,031	590
Expenses		(1,936)	(1,843)
Interest accrued and change in unit price		5,700	(988)
Other movements		1,750	(148)
At end of year/period		<u>306,435</u>	<u>230,073</u>

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29. BORROWINGS

US\$'000

	2014	2013
Medium Term Note	321,247	-
Interest bearing facilities from bank	<u>-</u>	<u>202,000</u>
Total Borrowings	<u><u>321,247</u></u>	<u><u>202,000</u></u>

On 24 September 2014, FWD Limited issued a 10-year senior unsecured note at nominal amount of US\$325,000,000. The note, due 2024, bears interest at 5.00% per annum. The note is listed on The Stock Exchange of Hong Kong Limited. Part of the proceeds were used to fully repay total outstanding borrowings of US\$207,700,000.

In 2013, the Group's borrowing facilities amounted to US\$500,000,000, of which US\$202,000,000 were utilized as at the end of 2013. The facilities are denominated in United States dollars and bear interest at 3.95% above LIBOR per annum. The facilities are secured by the equity interest in certain subsidiaries of the Company and a deposit pledged by FWD Group Limited. The facilities were fully repaid in 2014.

30. INSURANCE AND OTHER PAYABLES

US\$'000

	2014	2013
Accounts payable	1,064	360
Accrued expenses	20,445	18,341
Accrued agent expenses	27,222	21,130
Insurance payables	690	391
Others	<u>20,532</u>	<u>8,963</u>
Total insurance and other payables	<u><u>69,953</u></u>	<u><u>49,185</u></u>

The carrying amounts of the insurance and other payables approximate to their fair values.

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31. SHARE CAPITAL

US\$'000

	2014	2013
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
	<u>25,000</u>	<u>25,000</u>
Issued and fully paid,		
18,486,640 ordinary shares of US\$0.01 each	185	185
2,601,634 preference shares of US\$0.01 each	26	26
	<u>211</u>	<u>211</u>

During the period, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
<i>(a) Ordinary shares issued and fully paid</i>		
Issuance of 10 ordinary shares of US\$1 each on 13 December 2012	-	-
Issuance of 18,486,630 ordinary shares of US\$1 each on 27 February 2013	18,487	1,830,176
Surrender of 18,301,773.6 ordinary shares of US\$1 each on 10 December 2013	(18,302)	-
Sub-division of 184,866.4 ordinary shares of US\$1 each to 18,486,640 ordinary shares of US\$0.01 each on 10 December 2013	-	-
At 31 December 2014/ 31 December 2013	<u>185</u>	<u>1,830,176</u>
<i>(b) Preference shares issued and fully paid</i>		
At 13 December 2012	-	-
Issuance of 2,601,634 preference share of US\$0.01 each On 10 December 2013	26	-
At 31 December 2014/ 31 December 2013	<u>26</u>	<u>-</u>
Total at 31 December 2014/31 December 2013	<u>211</u>	<u>1,830,176</u>

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.

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32. BUSINESS COMBINATION

On 28 February 2013, the completion date of the transaction with ING Groep N.V., the Group acquired a 100% interest of the insurance businesses in Hong Kong and Macau ("FWD HK") from ING Groep N.V. FWD HK is engaged in the manufacture and distribution of insurance products in Hong Kong and Macau. The purchase consideration for the acquisition was US\$2,036,900,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of FWD HK as at the date of acquisition were as follows:

US\$'000	Notes	Fair value recognized on acquisition
Value of business acquired	15	609,713
Property, plant and equipment	17	4,165
Financial assets		
Available-for-sale financial assets		3,601,824
Financial assets at fair value through profit or loss		961,586
Loans and receivables		114,619
Derivative financial instruments		2,692
Reinsurance assets		106,853
Prepayments, deposits and other receivables		68,543
Accounts receivable		650
Deferred tax assets	24	237
Insurance receivables		55,291
Other assets		2,284
Pledged deposits		9,901
Cash and cash equivalents		187,578
Insurance contract liabilities		(3,910,502)
Investment contract liabilities		(559,874)
Pension benefit obligation		(759)
Financial liabilities		
Derivative financial instruments		(1,198)
Deferred tax liabilities	24	(927)
Accounts payable		(696)
Insurance payables		(777)
Accrued commissions		(35,813)
Investment creditors		(41,855)
Other payables		(38,355)
Tax payable		(337)
Total identifiable net assets at fair value		1,134,843
Goodwill on acquisition	14	902,057
Satisfied by cash		<u>2,036,900</u>

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32. BUSINESS COMBINATION (continued)

The largest fair value adjustment items relate to the recognition of (a) the insurance contract liabilities of the acquired business using current assumptions and (b) the present value of future profits for the in-force business on insurance contracts acquired by the Group (the VOBA). 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 purchase date. The residual goodwill of US\$902,057,000 represents future synergies expected to arise in the insurance operations, 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.

The Group incurred transaction costs of US\$19,614,000 for this acquisition in 2013. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss and other comprehensive income of 2013.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:  
US\$'000

Cash consideration	(2,036,900)
Pledged deposits	9,901
Cash and bank balances acquired	<u>187,578</u>
Net outflow of cash and cash equivalents	
included in cash flows from investing activities	(1,839,421)
Transaction costs of the acquisition included in cash flows from operating activities	<u>(19,614)</u>
	<u><u>(1,859,035)</u></u>

Following completion of the acquisition, FWD HK contributed US\$880,375,000 to the Group's revenue from continuing operations and US\$3,043,000 to the loss before tax for the period ended 31 December 2013.

Had the combination taken place at the beginning of the period of 2013, the revenue from continuing operations of the Group and the loss before tax of the Group for the period would have been US\$1,019,816,000 and US\$3,652,000, respectively.

33. 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		Principal activities
		Direct	Indirect	
FWD Financial Services Pte. Ltd.	Singapore	100	-	Investment holding
FWD Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Company (Bermuda) Limited	Bermuda/ Hong Kong	13	87	Life Insurance
FWD Life Insurance Company (Macau) Limited	Macau	-	100	Life Insurance
FWD General Insurance Company Limited	Hong Kong	-	100	General Insurance
FWD Financial Planning Limited	Hong Kong	-	100	Investment Advisory
FWD Pension Trust Limited	Hong Kong	-	100	Trust company

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33. SUBSIDIARIES (continued)

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above.

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 2014 and 31 December 2013.

34. COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 8 years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

US\$'000	2014	
	Lowest	Highest
Within one year	27,161	27,161
In the second to fifth years, inclusive	94,993	97,408
Over five years	84,771	87,470
	<u>206,925</u>	<u>212,039</u>
US\$'000	2013	
	Lowest	Highest
Within one year	9,476	9,476
In the second to fifth years, inclusive	17,671	18,172
Over five years	8,554	11,486
	<u>35,701</u>	<u>39,134</u>

The monthly rental of two operating lease arrangements is subject to change once the first term expires, with the rental amount determined by an independent surveyor within agreed ranges according to the market conditions.

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35. 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. The key management personnel is shared between the Group and some related parties. As a result, a portion of the compensation paid and payable by the related parties is disclosed below on an allocated basis. Accordingly, the summary of compensation of key management personnel is as follows.

US\$'000	For the year ended 31 December 2014	For the period from 13 December 2012 to 31 December 2013
Short-term employee benefits	7,037	3,488
Post-employment benefits	134	-
Share-based payment	12,619	-
Other long-term benefits	<u>2,177</u>	<u>51</u>
Total compensation paid and payable to key management personnel	<u>21,967</u>	<u>3,539</u>

(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\$1,888,000 (2013: US\$722,000) to a related party for provision of IT, HR and other building-related services and incurred US\$3,597,000 (2013: US\$2,941,000) for administration, consultancy and management services provided by the related party.
  - (ii) Related companies charged US\$7,526,000 (2013: US\$1,808,000) for the provision of telecommunication and investment advisory services and US\$433,000 (2013: nil) for brand licensing fees to the Group.
  - (iii) The Group has underwritten various group insurance contracts with related companies. The total premium revenue from those contracts for the year was US\$1,066,000 (2013: nil).
  - (iv) The Group invested in a related company and received dividend income of US\$7,000,000 (2013: US\$ 6,665,000) during the period and realized gains of US\$27,968,000 (2013: nil) during the period.
- (II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US\$5,112,000 (2013: US\$3,783,000) as at the end of the reporting period. 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\$34,857,000 (2013: US\$33,086,000) as at the end of the reporting period. The advances are unsecured, interest-free and payable on demand.



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## 36. SHARE-BASED COMPENSATION

**Share-based compensation plans**

The Group operates a share award plan that provides FWD 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 Limited.

The following table shows the movement in outstanding awards under the Group's share-based compensation plans:

	2014	2013
At beginning of year	--	-
Granted during the year	1,050,000	-
Vested during the year	(100,000)	-
At end of year	950,000	-

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 2014 is US\$80.5million.

**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 2014 is US\$12.6million.

## 37. 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.

**Regulatory Solvency**

The Group complied with all regulatory capital requirements during the year. The Group's primary insurance regulator for the FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited is the Hong Kong Office of the Commissioner of Insurance (HKOCI), which requires that FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance (HKICO). The HKICO (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 Hong Kong. The HKOCI requires FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKICO is 100 per cent of the required minimum solvency margin. The excess of assets over liabilities to be maintained by FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited required by HKOCI is described below.

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37. GROUP CAPITAL STRUCTURE (continued)

The capital positions of the Group's two principal Hong Kong operating companies at 31 December 2014 and 31 December 2013 are as follows:

At 31 December 2014 US\$'000	Total Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	453,955	200,949	226%
FWD General Insurance Company Limited	45,894	7,903	581%
At 31 December 2013 US\$'000	Total Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	383,065	159,106	241%
FWD General Insurance Company Limited	40,672	7,348	554%

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

**Capital and Regulatory Orders Specific to the Group**

At 31 December 2014 and 31 December 2013, the requirements and restrictions summarized below may be considered material to the Group and remain in effect unless otherwise stated.

**Hong Kong Office of the Commissioner of Insurance**

Undertakings have been given to the HKOCI that:

- (i) FWD Life Insurance Company (Bermuda) Limited will maintain and continue to maintain a solvency ratio target of 150 per cent to 200 per cent at all times and if the solvency ratio falls below the minimum target range, FWD Life Insurance Company (Bermuda) Limited will reinstate it within 90 days or a period of time as agreed with the HKOCI;
- (ii) FWD General Insurance Company Limited will maintain and continue to maintain a solvency ratio target of 300% to 500% at all times and if the solvency ratio falls below the minimum target range, FWD General Insurance Company Limited will reinstate it within 90 days or a period of time as agreed with the HKOCI; and
- (iii) Prior written consent from HKOCI will be obtained before declaring or paying dividends to shareholders.

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38. 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 and investment 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.

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## 38. RISK MANAGEMENT (continued)

**Insurance risks**(1) Life insurance contracts and investment 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 level of movements 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	2014	2013
10% increase in mortality	(1,796)	(1,347)
10% increase in morbidity	(3,012)	(2,092)
1% decrease in investment return	(1,279)	(254)
10% increase in expenses	(7,935)	(6,484)
10% increase in lapse/discontinuance rates	(12,794)	(9,354)

## (2) Non-life insurance contracts

The Group's non-life insurance business is diversified over seven classes of business. The Group has developed a robust underwriting framework to ensure that all risks accepted meet the guidelines and standards of the Group.

The Group's non-life insurance business is primarily derived from Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Group's insurance portfolio. The Group has developed a reinsurance strategy to ensure that a prudent and appropriate reinsurance program is in place, which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Group's reinsurance strategy include protection of shareholders' funds, reduction in volatility of the Group's underwriting result and diversified credit risk. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment of reinsurance assets.

## (i) Case estimates

For non-life insurance contracts, the case estimate for each reported claim is set up based on the best estimate of the ultimate claim settlement amount considering all the information available for the claim. The case estimate is revised from time to time according to the latest information available. When setting case estimates for larger claims, reference is made to the advice of independent consultants such as loss adjusters and solicitors where applicable.

## (ii) Key assumptions

Generally accepted actuarial methodologies, such as chain-ladder and Bornhuetter-Ferguson methods, are used to project the ultimate claims by class of business. The Group's past experience and claim development patterns are important assumptions for such projections. Other assumptions include average claim costs, claims handling expenses and claims inflation. The projected ultimate claim amount may also be judgmentally adjusted by external factors such as prevailing trends in judicial decisions, the economic environment and relevant government legislation.

## (iii) Sensitivities

Sensitivity analysis is performed to assess the effect of increasing the claim liabilities by 10% on the Group's net income and shareholders' equity.

In performing the sensitivity analysis, it is assumed that all reinsurance recoveries are recoverable.

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NOTES TO FINANCIAL STATEMENTS

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38. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

The table below shows the results of the sensitivity analysis:

US\$'000	Change in Assumptions %	2014			
		Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	2,878	2,748	(2,748)	(2,294)

US\$'000	Change in Assumptions %	2013			
		Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	2,425	2,277	(2,277)	(1,901)

\* Impact on equity reflects adjustments for tax, when applicable.

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NOTES TO FINANCIAL STATEMENTS

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38. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

Loss development triangle

The tables below show the development of incurred claims, including both notified and IBNR claims, over time for each successive accident year following the reporting period. Cumulative claims payments as at the current reporting period are also shown.

Gross claims development US\$'000	Note	2005 and prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Accident Year												
Accident year		28,448	15,069	15,975	18,654	18,355	18,497	20,406	24,299	20,706	29,032	
One year later		26,148	14,238	15,055	16,679	15,780	16,921	18,927	21,657	23,443		
Two years later		24,947	15,065	16,215	18,845	16,112	17,454	20,116	23,235			
Three years later		24,279	15,502	16,423	16,985	15,871	17,903	20,271				
Four years later		22,872	14,971	16,083	16,700	15,649	18,448					
Five years later		22,852	14,426	15,826	16,623	15,572						
Six years later		22,550	14,349	15,746	16,522							
Seven years later		22,399	14,238	15,667								
Eight years later		22,369	14,234									
Nine years later		22,367										
Current estimate of Cumulative claims		22,367	14,234	15,667	16,522	15,572	18,448	20,271	23,235	23,443	29,032	198,791
Cumulative payment to date		(22,342)	(14,069)	(15,625)	(16,259)	(15,317)	(17,263)	(18,467)	(19,475)	(18,296)	(15,250)	(172,363)
Total gross non-life insurance claim liabilities as per the statement of financial position	27(b)	25	165	42	263	255	1,185	1,804	3,760	5,147	13,782	26,428

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38. RISK MANAGEMENT (continued)

**Insurance risks (continued)**

(2) Non-life insurance contracts (continued)

Loss development triangle (continued)

Net claims development US\$'000	Note	2005 and prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Accident Year												
Accident year		24,922	13,680	14,590	16,498	16,837	17,429	19,158	22,428	24,574	27,898	
One year later		22,945	13,033	13,937	15,017	14,664	15,939	17,645	20,097	22,371		
Two years later		22,297	13,655	15,037	15,120	15,034	16,467	18,572	21,752			
Three years later		21,371	13,560	14,823	14,723	14,819	16,714	18,618				
Four years later		19,852	12,837	14,216	13,954	14,526	16,803					
Five years later		19,353	12,311	13,936	13,762	14,605						
Six years later		19,082	12,157	13,831	13,727							
Seven years later		18,964	12,128	13,770								
Eight years later		18,933	12,135									
Nine years later		18,931										
Current estimate of Cumulative claims		18,931	12,135	13,770	13,727	14,605	16,803	18,618	21,752	22,371	27,898	180,610
Cumulative payment to date		(18,906)	(12,031)	(13,729)	(13,603)	(14,343)	(15,943)	(17,068)	(18,104)	(17,621)	(14,824)	(156,172)
Total net non-life insurance claim liabilities as per the statement of financial position	27(b)	25	104	41	124	262	860	1,550	3,648	4,750	13,074	24,438

The estimated claim liabilities are subject to a significant degree of uncertainty, and could vary materially depending on the development of future claims experience. Differences resulting from reassessment of the ultimate liabilities will be recognized in subsequent financial statements.

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. RISK MANAGEMENT (continued)

**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 exposure limits 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.



FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. 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 period.

(a)	Credit risk (continued)																				
	31 December 2014																				
	US\$'000																				
	AAA	AA	A	BBB	BB	B	Not rated	Total													
Financial assets																					
Held-to-maturity	-	-	-	-	-	-	-	-	-	-											
Available-for-sale	157,648	1,959,406	1,735,636	600,066	17,423	10,620	212,101	4,692,900													
Fair value through profit or loss	30,197	94,099	130,334	406	3,528	-	929,387	1,187,951													
Loans and receivables	-	-	57,711	-	-	-	77,175	134,886													
Derivative financial instruments	-	-	3,512	-	-	-	-	3,512													
Reinsurance assets	-	3,342	243,768	-	-	-	4,453	251,563													
Prepayments, deposits and other assets	-	-	-	-	-	-	120,335	120,335													
Insurance receivables	-	-	-	-	-	-	48,260	48,260													
Due from related parties	-	-	-	-	-	-	5,112	5,112													
Pledged deposits	-	-	10,648	-	-	-	608	11,256													
Cash and cash equivalents	-	81,050	362,021	1,209	-	-	2,210	446,490				<u>187,845</u>	<u>2,137,897</u>	<u>2,543,630</u>	<u>601,681</u>	<u>20,951</u>	<u>10,620</u>	<u>1,399,641</u>	<u>6,902,265</u>		
	<u>187,845</u>	<u>2,137,897</u>	<u>2,543,630</u>	<u>601,681</u>	<u>20,951</u>	<u>10,620</u>	<u>1,399,641</u>	<u>6,902,265</u>													

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. RISK MANAGEMENT (continued)

Financial risks (continued)

(a) Credit risk (continued)

31 December 2013 US\$'000	AAA	AA	A	BBB	BB	Not rated	Total
Financial assets							
Held-to-maturity	-	-	-	-	-	-	-
Available-for-sale	153,537	1,177,963	1,591,757	526,677	9,301	275,311	3,734,546
Fair value through profit or loss	27,655	71,547	132,447	8,858	-	856,139	1,096,646
Loans and receivables	-	-	49,978	-	-	76,785	126,763
Derivative financial instruments	-	-	1,163	-	-	-	1,163
Reinsurance assets	-	-	163,145	-	-	4,320	167,465
Prepayments, deposits and other assets	-	-	-	-	-	63,202	63,202
Insurance receivables	-	-	-	-	-	64,795	64,795
Due from related parties	-	-	-	-	-	3,783	3,783
Pledged deposits	-	-	10,584	-	-	605	11,189
Cash and cash equivalents	-	12,107	220,807	322	-	19,310	252,546
	<u>181,192</u>	<u>1,261,617</u>	<u>2,169,881</u>	<u>535,857</u>	<u>9,301</u>	<u>1,364,250</u>	<u>5,522,098</u>

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.

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. 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 and investment 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 and investment 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 period to their contractual maturities or expected repayment dates. Most of the Group's assets are used to support its insurance and investment contract liabilities, which are not shown in the table below. Refer to Notes 27 and 28 for additional information on the Group's insurance and investment contract liabilities, as well as to the Insurance Risks section within Note 38.

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. RISK MANAGEMENT (continued)

**Financial risks (continued)**

*(b) Liquidity risk(continued)*

31 December 2014						
US\$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
<b>Financial assets</b>						
Held-to-maturity	-	-	-	-	-	-
Available-for-sale	145,746	902,835	573,870	2,858,348	212,101	4,692,900
Fair value through profit or loss	21,326	72,005	52,599	112,633	929,388	1,187,951
Loans and receivables	2,432	1,158	4,968	64,879	61,449	134,886
Derivative financial instruments	2,794	287	431	-	-	3,512
Deposits and other assets	74,681	-	-	-	2	74,683
Insurance receivables	48,260	-	-	-	-	48,260
Due from related parties	5,112	-	-	-	-	5,112
Pledged deposits	11,256	-	-	-	-	11,256
Cash and cash equivalents	370,245	-	-	-	76,245	446,490
<b>Total</b>	<b>681,852</b>	<b>976,285</b>	<b>631,868</b>	<b>3,035,860</b>	<b>1,279,185</b>	<b>6,605,050</b>
<b>Financial liabilities</b>						
Borrowings	-	-	-	321,247	-	321,247
Derivative financial instruments	2,521	1,141	376	-	-	4,038
Insurance and other payables	64,142	-	-	-	5,811	69,953
Accrued commissions	79,740	-	-	-	-	79,740
Investment creditors	62,982	-	-	-	-	62,982
Due to related parties	34,857	-	-	-	-	34,857
Tax payable	711	-	-	-	-	711
<b>Total</b>	<b>244,953</b>	<b>1,141</b>	<b>376</b>	<b>321,247</b>	<b>5,811</b>	<b>573,528</b>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. RISK MANAGEMENT (continued)

**Financial risks (continued)**

*(b) Liquidity risk(continued)*

31 December 2013						
US\$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
<b>Financial assets</b>						
Held-to-maturity	-	-	-	-	-	-
Available-for-sale	110,974	311,301	547,033	2,489,926	275,312	3,734,546
Fair value through profit or loss	30,267	59,126	51,793	99,321	856,139	1,096,646
Loans and receivables	1,968	1,207	5,252	58,727	59,609	126,763
Derivative financial instruments	-	1,163	-	-	-	1,163
Deposits and other assets	53,578	801	-	1,031	1,562	56,972
Insurance receivables	64,795	-	-	-	-	64,795
Due from related parties	3,783	-	-	-	-	3,783
Pledged deposits	11,189	-	-	-	-	11,189
Cash and cash equivalents	<u>236,267</u>	-	-	-	<u>16,279</u>	<u>252,546</u>
<b>Total</b>	<u><u>512,821</u></u>	<u><u>373,598</u></u>	<u><u>604,078</u></u>	<u><u>2,649,005</u></u>	<u><u>1,208,901</u></u>	<u><u>5,348,403</u></u>
<b>Financial liabilities</b>						
Borrowings	-	-	202,000	-	-	202,000
Derivative financial instruments	80	731	1,787	-	-	2,598
Insurance and other payables	48,666	-	-	-	519	49,185
Accrued commissions	47,717	-	-	-	-	47,717
Investment creditors	21,855	-	-	-	-	21,855
Due to related parties	33,086	-	-	-	-	33,086
Tax payable	<u>985</u>	-	-	-	-	<u>985</u>
<b>Total</b>	<u><u>152,389</u></u>	<u><u>731</u></u>	<u><u>203,787</u></u>	<u><u>-</u></u>	<u><u>519</u></u>	<u><u>357,426</u></u>

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) *Market risk*

(i) Currency 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 and investment contracts.

The Group's financial assets and liabilities are primarily denominated in United States dollars and Hong Kong dollars, for which the exchange rates have remained stable for the years ended 31 December 2014 and 31 December 2013.

At 31 December 2014, assets denominated in United States dollars and Hong Kong dollars accounted for 67% (2013: 58%) and 28% (2013: 38%) of the Group's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 41% (2013: 44%) and 54% (2013: 51%) of the Group's total liabilities, respectively. The Group has more United States dollar denominated assets than it has corresponding United States dollar denominated liabilities due to the much deeper pool of investment assets available in United States dollars. As a result, some of the United States dollar denominated assets are used to back Hong Kong dollar denominated liabilities. This currency mismatch is then hedged, using forward currency contracts, to reduce the currency risk.

(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 and investment 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.

In the analysis, it is assumed that the discount rates for the liabilities with regard to insurance contracts remain unchanged.

US\$'000		Impact on shareholders' equity	
Currency	Change in variables	2014	2013
HKD	+25 basis points	(10,398)	(8,028)
USD	+25 basis points	(70,201)	(55,011)
HKD	-25 basis points	10,398	8,028
USD	-25 basis points	70,201	55,011

FWD LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) *Market risk (continued)*

(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 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	
		2014	2013
Change in equity prices	-10%	(13,383)	(17,867)

## GLOSSARY

Acquisition	The acquisition of a 100 per cent. interest in the Hong Kong and Macau life insurance businesses and Hong Kong general insurance, employee benefits and financial planning businesses of ING completed by the Issuer on 28 February 2013.
Aetna	Aetna Inc., the original parent company of FWD Life Hong Kong.
AMCM	The Monetary Authority of Macau, the primary regulator of the insurance industry in Macau.
Amending Directive	The Council Directive formally adopted by the Council of the European Union on 24 March 2014 broadening the scope of the requirements of EC Council Directive 2003/48/EC.
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.
ANZ	Australia and New Zealand Banking Group Limited.
Asset and Liability Management Committee (ALMCO)	The Group's ALMCO is a management committee established to support the RMAC and to provide oversight of the Group's asset and liability management.
Bancassurance	The distribution of insurance products through banks or other financial institutions.
BoComm	Bank of Communications Co., Ltd. Hong Kong Branch, one of the Group's key bancassurance partners.
CAGR	Compound annual growth rate.
CCBA	China Construction Bank (Asia) Corporation Limited, one of the Group's key bancassurance partners.
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, <i>société anonyme</i> .
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.
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.
Fitch	Fitch Ratings Limited.
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 Financial Planning	FWD Financial Planning Limited.
FWD General Insurance	FWD General Insurance Company Limited.
FWD Life Hong Kong	FWD Life Insurance Company (Bermuda) Limited.
FWD Life Macau	FWD Life Insurance Company (Macau) Limited.
FWD Pension Trust	FWD Pension Trust 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 calculated based on guidelines promulgated by the OCI or the AMCM, as appropriate.
HKICO	The Insurance Companies Ordinance (Laws of Hong Kong, Chapter 41).
Hong Kong	The Hong Kong Special Administrative Region of the PRC.
Hong Kong dollars, HK dollars or HK\$	The lawful currency of Hong Kong.
HKCIB	The Hong Kong Confederation of Insurance Brokers, a self-regulatory body of which the Group is an active member with oversight of the insurance industry in Hong Kong.
HKFI	The Hong Kong Federation of Insurers, a self-regulatory body of which the Group is an active member with oversight of the insurance industry in Hong Kong.
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).
ILAS	Investment-linked assurance schemes.
ING	ING Groep N.V.
Insurance Authority	The Insurance Authority appointed under section 4 of the HKICO; currently the Commissioner of Insurance.
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 RMAC and to provide oversight of the Group's investments.

Investment contract	An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.
Investment income	Interest income, dividends and rental income.
Investment return(s)	Investment income plus investment experience.
Issue Date	On or about [●] 2017.
Issuer	FWD Limited, incorporated on 13 December 2012.
Joint Lead Managers and Joint Bookrunners	BNP Paribas, HSBC Bank plc and Standard Chartered Bank.
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.
Life Businesses	FWD Life Macau together with FWD Life Hong Kong.
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 measured in accordance with the HKICO or the MICO, as appropriate.
Macau	The Macau Special Administrative Region of the PRC.
Macau pataca or MOP	The lawful currency of Macau.
Mandatory Provident Fund scheme (MPF)	MPF is a compulsory saving scheme or pension fund for the residents of Hong Kong.
MICO	The Macau Insurance Companies Ordinance.
Million Dollar Round Table (MDRT)	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Minimum local required capital	The minimum required margin of solvency calculated in accordance with the HKICO or the MICO, as appropriate.
Moody's	Moody's Investors Service Limited.
Non-participating life insurance	Contracts of insurance with no discretionary participation features.
Occupational Retirement Schemes (ORSO)	Voluntarily established occupational retirement schemes.
OCI	Hong Kong Office of the Commissioner of Insurance.
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.
Persistency ratio	The percentage of insurance policies remaining in place 13 months after the issuance of the policies, as measured by premiums.
PineBridge	PineBridge Investments Limited, which the Group has appointed as the investment manager for its credit fixed income portfolio.
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.

PRC .....	People’s Republic of China (excluding, for the purposes of this Offering Circular only, Hong Kong, Macau and Taiwan).
Richard Li .....	The Issuer’s primary beneficial owner.
Regulation S .....	Regulation S under the Securities Act.
Renminbi or RMB .....	The lawful currency of the PRC.
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 Management and Actuarial Committee (RMAC) .....	The Group’s RMAC 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.
Securities .....	The U.S.\$[●] Subordinated Perpetual Capital Securities.
Securities Act .....	U.S. Securities Act of 1933.
Section 35 Orders .....	Letters issued by the Insurance Authority to each of FWD Life Hong Kong and FWD General Insurance under Section 35(1) of the HKICO pursuant to which FWD Life Hong Kong and FWD General Insurance are required to adhere to certain requirements.
SEHK .....	The Stock Exchange of Hong Kong Limited.
SFA .....	The Securities and Futures Act, Chapter 289 of Singapore.
SFC .....	The Hong Kong Securities and Futures Commission.
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 on 10 December 2013, which governs the rights of Richard Li and Swiss Re as beneficial owners of the Issuer.
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.
Specified person .....	For the purpose of the Section 35 Orders, “specified person” includes but is not limited to an insurer’s directors, controlling persons, shareholders and associates or group companies.
Stabilising Coordinator .....	Any of the Joint Lead Managers acting in its capacity as a stabilising coordinator.
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 for 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.
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.
- Universal Life ..... A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
- 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.

**ISSUER**

**FWD Limited**

22/F, FWD Financial Centre  
308 Des Voeux Road Central  
Hong Kong

**FISCAL AGENT, PAYING AND TRANSFER AGENT AND REGISTRAR**

**The Hongkong and Shanghai Banking Corporation Limited**

30<sup>th</sup> Floor, HSBC Building  
1 Queen's Road Central  
Hong Kong

**AUDITORS**

**Ernst & Young**

22/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**LEGAL ADVISERS**

*To the Issuer as to English law*

**Linklaters**

10<sup>th</sup> Floor, Alexandra House  
18 Chater Road  
Central  
Hong Kong

*To the Issuer as to Cayman Islands law*

**Walkers**

15<sup>th</sup> Floor, Alexandra House  
18 Chater Road  
Central  
Hong Kong

*To the Joint Lead Managers as to English Law*

**Clifford Chance**

27<sup>th</sup> Floor, Jardine House  
One Connaught Place  
Central  
Hong Kong