Report of the Directors and Audited Financial Statements

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司
(Incorporated in Bermuda with limited liability)

31 December 2022

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

CONTENTS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of FWD Life Insurance Company (Bermuda) Limited (the "Company") for the year ended 31 December 2022.

Principal activity
The principal activity of the Company is the direct underwriting of long term life insurance business. There were no changes in the nature of the Company's principal activity during the year.

The Company did not carry on insurance business during the year relating to liabilities or risks in respect of which persons are required by any ordinance to be insured.

Results and dividends
The Company's profit for the year ended 31 December 2022 and the state of affairs of the Company as at that date are set out in the financial statements on pages 6 to 105.

Plant and equipment
Details of movements in the plant and equipment of the Company during the year are set out in note 14 to the financial statements.

Share capital
Details of movements in the Company's share capital during the year are set out in note 32(a) to the financial statements.

Shares issued
Details of shares issued in the year ended 31 December 2022, together with the reasons therefor, are set out in note 32(a) to the financial statements.

Equity-linked arrangements
During the year, the Company had not entered into any equity-linked arrangements.

Reserves
Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 10.

Directors
Given below are the names of all the persons who are or were, during the year and up to the date of this report, directors of the Company:

Lau Chi Kin
Huynh Phong Thanh *(resigned on 23 March 2022)*
James Andrew Charles Ogilvy-Stuart
Robert Andrew Gazzi
Damis Jacobus Ziengs
Priscilla Murray Brown
Jon Paul Nielsen
Adrian Thomas O'Connor
Lee Ronald Murphy *(appointed on 1 October 2022 and resigned on 20 March 2023)*

Directors' interests

FWD Limited ("FL"), an intermediate holding company of the Company, operates the FWD Share Option and RSU Plan that provide FL shares or share options to participants upon vesting. Eligible employees, which include certain directors of the Company, 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 share options or a conditional allocation of shares or share options. These share awards have vesting periods. 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 FL.

Huynh Phong Thanh, Jon Paul Nielsen and Lau Chi Kin held ordinary shares of FL which were acquired under the FWD Share Option and RSU Plan at the end of the year.

Further details of the FWD Share Option and RSU Plan of the Company's intermediate holding company are set out in note 33 to the financial statements.

Apart from the above, at no time during the year was the Company or any of its subsidiaries, holding companies, or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' material interests in transactions, arrangements and contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements and contracts of significance in relation to the business of the Company to which the Company, its holding companies, any of its subsidiaries or fellow subsidiaries was a party at any time during the year or subsisted at the end of the year.

Permitted indemnity provisions

During the year and up to the date of this report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the directors of the Company. The permitted indemnity provisions are provided for in the Company's Bye-Laws and in the directors and officers liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

Donations

During the year, the Company made donation amounted to US$Nil (2021: US$73,000).

Material reinsurance arrangements

The followings are the material reinsurance arrangements effected by the Company during the year:

Name of reinsurers	Class of business
China Life Reinsurance Company Limited	Life assurance
China Reinsurance (Hong Kong) Company Limited	Life assurance
General Reinsurance AG	Life assurance
RGA Reinsurance Company	Life assurance and catastrophe reinsurance
RGA Global Reinsurance Company Limited	Life assurance
Munich Reinsurance Company	Life assurance and group life
Munich Reinsurance Company Singapore branch	Life assurance
Swiss Re Asia Pte. Ltd	Life assurance and permanent health
Shanghai Pilot FTZ Branch of Taiping Life Insurance Company Limited	Life assurance
Hannover Rück SE Hong Kong Branch	Life assurance
Hannover Rück SE Shanghai Branch	Life assurance
Tai Ping Reinsurance Company Limited	Life assurance
Partner Reinsurance Asia Pte. Ltd	Life assurance
FWD General Insurance Company Ltd	Group medical
China BOCOM Insurance Co., Ltd	Group medical

The Company entered into coinsurance arrangement with Munich Reinsurance Company to cede new business of selected traditional life products issued between 1 January 2014 and 31 December 2019.

The Company also entered into coinsurance arrangement with FWD Life Insurance Company (Macau) Ltd and FWD Life (Hong Kong) Ltd to assure new business/renewal business of selected traditional life products issued since 1 October 2020.

Upon the regulatory change of a risk-based capital regime ("HKRBC") implementation, it is expected that policies ceded under coinsurance arrangements with Munich Reinsurance Company will be recaptured in 2023.

Auditor

The financial statements now presented have been audited by Ernst & Young, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Events after the reporting period

There have been no events subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

ON BEHALF OF THE BOARD

Ken Lau

....
Lau Chi Kin
Director

Hong Kong
28 April 2023

EY 安永

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Quarry Bay, Hong Kong

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Independent auditor's report
To the members of FWD Life Insurance Company (Bermuda) Limited
富衛人壽保險（百慕達）有限公司
(Incorporated in Bermuda with limited liability)

Opinion
We have audited the financial statements of FWD Life Insurance Company (Bermuda) Limited (the "Company") set out on pages 6 to 105, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

Information other than the financial statements and auditor's report thereon
The directors are responsible for the other information. The other information comprises the information included in the report of the directors, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

EY 安永

Independent auditor's report (continued)
To the members of FWD Life Insurance Company (Bermuda) Limited
富衛人壽保險（百慕達）有限公司
(Incorporated in Bermuda with limited liability)

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Ernst & Young

Certified Public Accountants
Hong Kong
28 April 2023

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
REVENUE			
Gross premiums	4(a)	2,597,614	3,543,042
Reinsurers' share of gross premiums	4(b)	(158,094)	(185,006)
Net premiums	4	2,439,520	3,358,036
OTHER REVENUE			
Fees, commission and other income	5	129,084	117,548
Investment income	6	446,227	513,039
Net realised (losses)/gains on financial assets	7	(37,765)	249,863
Net fair value (losses)/gains on financial assets		(438,235)	193,954
		99,311	1,074,404
TOTAL REVENUE		2,538,831	4,432,440
BENEFITS AND CLAIMS			
Gross benefits and claims paid	8(a)	(1,226,443)	(793,762)
Reinsurers' share of gross benefits and claims paid	8(b)	129,663	67,334
Gross change in contract liabilities		3,293,914	(2,345,328)
Reinsurers' share of gross change in contract liabilities		(665,871)	(314,623)
Net benefits and claims		1,531,263	(3,386,379)
OTHER EXPENSES			
Fee and commission expense	9	(208,202)	(140,923)
Other operating and administrative expenses		(349,759)	(316,541)
Finance cost - interest expense on lease liabilities	31	(1,891)	(1,517)
		(559,852)	(458,981)
TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES		971,411	(3,845,360)
PROFIT BEFORE TAX	10	3,510,242	587,080
INCOME TAX	12	(559,902)	(86,607)
DISCONTINUED OPERATION	13(a)	-	10,969
PROFIT FOR THE YEAR		2,950,340	511,442

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
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	19	(2,694,627)	(116,315)
Reclassification adjustments for gains included in profit or loss			
- net losses/(gains) on disposal	19	35,300	(208,991)
- impairment losses	19	63,421	15,611
Income tax effect	23	405,538	54,097
		(2,190,368)	(255,598)
Cash flow hedges:			
Effective portion of change in fair value		(5,262)	11,380
Income tax effect	23	868	(1,878)
	22	(4,394)	9,502
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(2,194,762)	(246,096)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(2,194,762)	(246,096)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		755,578	265,346

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
ASSETS			
Plant, equipment and software	14	14,440	13,586
Right-of-use assets	15	54,234	55,884
Intangible asset	16	978	981
Investments in subsidiaries	17	1,203,228	1,084,339
Financial assets			
Held-to-maturity financial assets	18	304,607	397,662
Available-for-sale financial assets	19	11,381,472	12,642,440
Financial assets at fair value through profit or loss	20	3,073,064	3,074,373
Loans and receivables	21	107,273	176,877
Derivative financial instruments	22	62,064	22,682
Reinsurance assets	24	-	1,767,108
Prepayments, deposits and other receivables	25	163,997	132,820
Insurance receivables	26	205,394	258,556
Due from an immediate holding company	35(b)	5	5
Due from subsidiaries	35(b)	14,192	5,117
Due from fellow subsidiaries	35(b)	348,803	118,465
Due from related companies	35(b)	8,945	2,948
Cash and bank balances	27	225,805	354,065
		17,168,501	20,107,908
Assets held for sale	13(a)	-	40,000
TOTAL ASSETS		17,168,501	20,147,908
LIABILITIES			
Insurance contract liabilities	28	12,296,352	16,699,961
Investment contract liabilities	29	168,652	217,805
Reinsurance liabilities	24	83,069	-
Due to subsidiaries	35(b)	238,808	241,873
Due to fellow subsidiaries	35(b)	9,177	2,564
Due to related companies	35(b)	31,827	21,406
Due to intermediate holding company	35(b)	1,213	707
Financial liabilities			
Derivative financial instruments	22	18,089	31,900
Other payables and accrued liabilities	30	643,129	371,209
Lease liabilities	31	53,864	55,634
Current tax liabilities		72,151	-
Deferred tax liabilities	23	175,498	94,153
		13,791,829	17,737,212
Liabilities held for sale	13(a)	-	-
Total liabilities		13,791,829	17,737,212

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF FINANCIAL POSITION (continued)

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
EQUITY			
Share capital	32(a)	1,784,143	1,575,254
Available-for-sale financial assets revaluation reserve		(1,626,146)	564,222
Cash flow hedge reserve		(16,036)	(11,642)
Share option reserve		13,408	11,899
Retained earnings		3,221,303	270,963
Total equity		3,376,672	2,410,696
TOTAL LIABILITIES AND EQUITY		17,168,501	20,147,908

Ken Lau
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Lau Chi Kin
Director

....
Jon Paul Nielsen
Director

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Notes	Share capital US$'000	Available-for sale financial assets revaluation reserve US$'000	Cash flow hedge reserve US$'000	Share option reserve US$'000	(Accum-ulated losses)/ retained earnings US$'000	Total equity US$'000
At 1 January 2021		1,413,644	819,820	(21,144)	9,830	(240,479)	1,981,671
Total comprehensive income for the year		-	(255,598)	9,502	-	511,442	265,346
Issue of ordinary shares	32(a)	83,728	-	-	-	-	83,728
Issue of preference shares	32(a)	77,882	-	-	-	-	77,882
Equity-settled share option arrangements	33	-	-	-	2,069	-	2,069
At 31 December 2021 and 1 January 2022		1,575,254	564,222	(11,642)	11,899	270,963	2,410,696
Total comprehensive income for the year		-	(2,190,368)	(4,394)	-	2,950,340	755,578
Redemption of preference shares	32(a)	(709,926)	-	-	-	-	(709,926)
Issue of ordinary shares	32(a)	918,815	-	-	-	-	918,815
Equity-settled share option arrangements	33	-	-	-	1,509	-	1,509
At 31 December 2022		1,784,143	(1,626,146)	(16,036)	13,408	3,221,303	3,376,672

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,510,242	587,080
Adjustments for:			
Depreciation of plant, equipment and software	14	7,106	7,442
Amortisation of intangible assets	16	3	-
Depreciation of right-of-use assets	15	18,385	20,025
Investment income		(11,163)	(966,152)
Finance cost - interest expense on lease liabilities	31	1,891	1,517
Insurance and investment contract liabilities		(2,602,585)	2,711,659
Impairment loss on available-for-sale financial assets	19	63,421	15,611
Impairment on investment in a subsidiary	10	-	5,149
Fair value change in investments in subsidiaries	10	-	(44,815)
Provision for impairment on secured loans	6	111	19
Foreign exchange (gains)/losses	10	(27,665)	19,642
Equity-settled share option expenses	33	1,509	2,069
		961,255	2,359,246
Purchases of available-for-sale financial assets and financial assets at fair value through profit or loss		(8,247,593)	(8,251,708)
Proceeds from disposals of available-for-sale financial assets and financial assets at fair value through profit or loss		6,265,524	5,289,304
Proceeds from disposal of held-to-maturity financial assets		95,028	24,810
Decrease/(increase) in loans and receivables		75,175	(8,400)
Increase in prepayments, deposits and other receivables		(32,851)	(10,496)
Decrease in insurance receivables		53,162	72,030
Increase in due from subsidiaries		(9,075)	(1,991)
Increase in due from fellow subsidiaries		(230,338)	(112,655)
Increase in due from related companies		(5,997)	(1,898)
Decrease in other assets, net		-	1,090
(Decrease)/increase in due to subsidiaries		(3,065)	241,270
Increase/(decrease) in due to fellow subsidiaries		6,613	(7,279)
(Decrease)/increase in due to an immediate holding company		(707)	707
Increase in due to intermediate holding companies		1,213	-
Increase in due to related companies		10,421	6,957
Increase/(decrease) in other payables and accrued liabilities		63,067	(16,458)
Cash flows used in operations		(998,168)	(415,471)
Dividend received from investments		137,160	229,007
Interest received		437,583	362,259
Finance costs paid on lease liabilities	31	(1,891)	(1,517)
Investment expenses paid		(24,586)	(20,122)
Net cash flows generated (used in)/from operating activities		(449,902)	154,156

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of items of plant, equipment and software	14	(8,107)	(8,459)
Proceeds from change in lease terms on contracts	15	517	428
Proceeds from disposal of plant, equipment and software	14	147	-
Acquisition of intangible assets	16	-	(981)
Capital contribution to subsidiaries and proceeds from sale of a subsidiary		(78,889)	(111,610)
Net cash flows used in investing activities		(86,332)	(120,622)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Redemption)/proceeds from issue of preference shares	32(a)	(709,926)	77,882
Proceeds from issue of ordinary shares	32(a)	918,815	83,728
Principal portion of lease payments	31	(16,681)	(19,676)
Finance costs paid on repurchase agreements		6,913	(529)
Proceeds from/(payments to) repurchase agreements		208,853	(238,587)
Net cash flows generated/(used in) from financing activities		407,974	(97,182)
Net cash flows from discontinued operations		-	13,136
NET CHANGE IN CASH AND CASH EQUIVALENTS		(128,260)	(50,512)
Cash and bank balances at beginning of year		354,065	404,577
CASH AND BANK BALANCES AT END OF YEAR		225,805	354,065
ANALYSIS OF BALANCES OF CASH AND BANK BALANCES			
Cash and cash equivalents		225,805	311,735
Non-pledged time deposits with original maturity of less than three months when acquired	27	-	42,330
Cash and bank balances as stated in the statement of financial position and statement of cashflow	27	225,805	354,065

1. CORPORATE INFORMATION

FWD Life Insurance Company (Bermuda) Limited (the "Company") is incorporated in Bermuda and registered in Hong Kong to carry on long term insurance business. The principal place of business of the Company in Hong Kong is located at 28th Floor, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong. The principal activity of the Company is the direct underwriting of long term life insurance business. The controlling party of the Company is FWD Management Holdings Limited, a company incorporated in Hong Kong.

The Insurance Authority (the "IA") has introduced a risk-based capital regime ("HKRBC") to the Hong Kong insurance industry, which supersedes the prior regulatory capital requirements under the Insurance Ordinance (the "Ordinance") Cap. 41. The Company has obtained approval from the IA to early adopt HKRBC with effect from 30 June 2022.

In the opinion of the directors, PCGI Limited, a company incorporated in Cayman Islands and wholly owned by Mr. Richard Li Tzar Kai, was the Company's ultimate holding company as at 31 December 2019. On 17 December 2020, PCGI Limited and PCGI Intermediate Holdings Limited ("PCGIIHL") carried out a merger under the laws of the Cayman Islands (the "Merger"), pursuant to which PCGIIHL assumed all the assets, liabilities and business of PCGI Limited, and PCGI Limited ceased to exist according to the laws of the Cayman Islands. Following the Merger, PCGIIHL (name changed to FWD Group Holdings Limited on 20 August 2021 in the Cayman Islands and on 2 September 2021 in Hong Kong and a dual foreign name of FWD Group Holdings Limited 富衛集團有限公司 had been adopted effective on 10 January 2022 in the Cayman Islands and change of company name from FWD Group Holdings Limited to FWD Group Holdings Limited 富衛集團有限公司 effective on 28 January 2022 in Hong Kong) became the Company's intermediate holding company, and PCGI Holdings Limited, a company incorporated in the Cayman Islands and wholly owned by Mr. Richard Li Tzar Kai, became the Company's ultimate holding company as at the end of the year ended 31 December 2022.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

2.2 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention, except as stated in the accounting policy set out below. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

In accordance with the criteria set out in paragraph 4(a) of HKFRS 10 *Consolidated Financial Statements* the Company is exempt from the preparation of consolidated financial statements because FWD Limited, which is the intermediate holding company of the Company and incorporated in Cayman Islands, produces consolidated financial statements in accordance with International Financial Reporting Standards that are available for public use. The Company presents separate financial statements.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs are described below:

(a) The Company has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Company.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories* in profit or loss. The Company has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Company.

(c) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Company are as follows:

HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The Company has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Company's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Company.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9

HKFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in HKAS 39.

For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. Financial assets containing prepayment features with negative compensation can measured at amortised cost or at fair value through comprehensive income if the cash flow represents solely payments of principal and interest ("SPPI"). Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss.

The Company has not yet fully completed its assessment of impact of the standard on its financial position and results of operations.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018. Amendments to HKFRS 4 *Insurance Contracts* allow a temporary exemption option for companies whose activities are predominantly connected with insurance to defer the effective date of HKFRS 9 until the earlier of the effective date of HKFRS 17 and financial reporting periods beginning on or after 1 January 2023. The Company has elected to apply the temporary exemption option to defer the effective date of HKFRS 9 in order to implement the changes in parallel with HKFRS 17 *Insurance Contracts.*

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9 (continued)
The following disclosures are provided in accordance with the requirements of amendments to HKFRS 4 when temporary exemption option is applied.

The Company's financial assets as at 31 December 2022 are separated into the following two groups:

(i) financial assets with contractual terms that give rise to cash flows that are SPPI in accordance with HKFRS 9 and are not held for trading or managed on fair value basis, which consist of cash and cash equivalents, receivables, accrued investment income, loans and deposits, and debt securities; and

(ii) financial assets other than those specified in (i), which consist of derivative assets, equity securities, debt securities, and accrued investment income.

The following table shows the fair value and change in fair value of these two groups of financial assets.

	Fair value as at 31 December 2022			Change in fair value for the year ended 31 December 2022		
US$m	Financial assets that meet SPPI criteria and are not held for trading or managed on a fair value basis	Others	Total	Financial assets that meet SPPI criteria and are not held for trading or managed on a fair value basis	Others	Total
Debt securities	9,670	556	10,226	(2,432)	(51)	(2,483)
Other financial assets (Note 1 and 2)	105	4,582	4,687	-	(558)	(558)
Total	9,775	5,138	14,913	(2,432)	(609)	(3,041)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9 (continued)

US$m	Fair value as at 31 December 2021			Change in fair value for the year ended 31 December 2021		
	Financial assets that meet SPPI criteria and are not held for trading or managed on a fair value basis	Others	Total	Financial assets that meet SPPI criteria and are not held for trading or managed on a fair value basis	Others	Total
Debt securities	10,864	807	11,671	(281)	(17)	(298)
Other financial assets (Note 1 and 2)	175	4,495	4,670	-	352	352
Total	11,039	5,302	16,341	(281)	335	54

Notes:
(1) Balance of other financial assets qualifying as SPPI includes loans and deposits.
(2) Balance of other financial assets not qualifying as SPPI mainly represents equity securities and derivative financial instruments.

The following table sets out the credit quality analysis for financial assets that met SPPI criteria and are not held for trading or managed on fair value basis. The amounts presented below represent gross carrying amounts determined in accordance with HKAS 39.

US$m	As at 31 December 2022	As at 31 December 2021
AAA	1,139	1,530
AA	1,183	1,258
A	3,858	4,486
BBB	3,369	3,504
Below investment grade	58	62
Not rated	168	199
Total	9,775	11,039

As at 31 December 2022, the fair value of financial assets that do not have low credit risk was US$97,000,000 (2021: US$62,000,000).

Financial assets are considered to have low credit risk if:
- the financial instruments have a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Among the new and revised HKFRSs, the following are expected to be relevant to the Company's financial statements upon becoming effective:

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 - Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

[1] Effective for annual periods beginning on or after 1 January 2023
[2] Effective for annual periods beginning on or after 1 January 2024
[3] No mandatory effective date yet determined but available for adoption
[4] As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion
[5] As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023
[6] An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

Further information about those HKFRSs that are expected to be applicable to the Company is described below.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

HKFRS 17 *Insurance Contracts* will replace HKFRS 4 *Insurance Contracts*, and will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements.

Under HKFRS 17, insurance contracts are measured by the general model which is based on a discounted cash flow model with an explicit risk adjustment, and a contractual service margin that defers unearned profits. The deferred profit is recognised gradually over time when insurance contract services are provided to policyholders. The general model is supplemented by the variable fee approach for contracts that meet certain requirements and provide insurance coverage together with substantial investment-related service, and the premium allocation approach that applies to short-duration contracts. The Company expects to use all three measurement model approaches given the variety of insurance products sold.

The insurance contracts are presented in the statement of financial position as the sum of the discounted future cash flows, the risk adjustment and the contractual service margin. The asset for deferred acquisition costs and other insurance related receivables will no longer be separately presented as they will be included in the insurance contract liabilities measurement under HKFRS 17.

Insurance revenue will no longer be measured by premium, but recognised by the provision of services to policyholders throughout the term of the insurance contracts. Additionally, HKFRS 17 introduces a new presentation format for the statement of comprehensive income with a disaggregation between insurance service result and insurance finance income and expenses. Reinsurance outward results are also required to be shown separate to inward business. There will be extensive disclosures to reconcile the movements in insurance contract assets and liabilities with the income and expenses in the statement of comprehensive income.

The effective date of HKFRS 17 is for annual reporting periods beginning on or after 1 January 2023, with retrospective application and restatement of comparative figures required. If full retrospective application to a group of contracts is impracticable, HKFRS 17 requires using either the modified retrospective approach that allows certain specific modifications, or the fair value approach. The Company expects to make use of all three transition approaches given the varying length of history of the in-force business.

HKFRS 17 requires significant changes to the accounting policies for insurance contract liabilities and enhancements to the IT, finance and actuarial systems of the Company, and a project is in progress to implement the new standard.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Company has been assessing the implications of HKFRS 17 and is in the midst of preparing the opening statement of financial position as at 1 January 2022 and the restatement of results for the year ended 31 December 2022 under HKFRS 17. The Company has been monitoring emerging market practice and interpretations of judgemental areas of the standard and there continues to be some uncertainty on the financial impact on transition to HKFRS 17. The Company expects that the new standard will result in important change to the accounting policies for insurance contract liabilities of the Company, and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

Further, HKFRS 17 provides flexibility in allowing the effects of changes in discount rates and other financial variables to be either presented in profit or loss or disaggregated between profit or loss and other comprehensive income and hence accounting mismatches could be reduced. As such, HKFRS 17 is expected to result in reduced volatility in reported net profit and total equity as a result of improved alignment in the financial market related impacts of assets and liabilities. Lower volatility in profit or loss would be expected for insurance contracts being classified under the variable fee approach. Under this approach, the effects of changes in discount rates and other financial variables (such as fair value movements in equities) are adjusted to the contractual service margin and amortised over future periods rather than recognised immediately in profit or loss.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Company is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Company's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Company is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The amendments are not expected to have any significant impact on the Company's financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity) directly or indirectly controlled by the Company. Control is achieved when the Company 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 Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company 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 Company's voting rights and potential voting rights.

The results of subsidiaries are included in profit or loss to the extent of dividends received and receivable.

The Company classifies its investments in certain subsidiaries at fair value through profit or loss financial instruments in accordance with HKAS 39 due to the fact that this category of companies is continually managed for total return and evaluated on a fair value basis.

Other investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Fair value measurement

The Company measures its derivative financial instruments, debt investments 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 to sell an asset or 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 Company. 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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and a disposal group classified as held for sale), 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 recognised 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates 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/amortisation) had no impairment loss been recognised 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.

Related parties
A party is considered to be related to the Company 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 Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company 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 Company 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 Company or an entity related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment and depreciation
Items of 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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale".

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the 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%
Computer equipment and software	33⅓%
Leasehold improvements	Over the lease terms

Where parts of an item of property, 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 property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Depreciation of right-of-use assets are included in "Other operating and administrative expenses". Right-of-use assets are subject to impairment.

(b) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivables, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its intermediate holding company, FWD Limited's incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest expense is included in "Finance costs". In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Company as a lessee (continued)
(c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below US$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term and are included in "Other operating and administrative expenses".

Company as a lessor
When the Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Leases that transfer substantially all the risks and rewards incidental to an underlying assets to the lessee are accounted for as finance leases.

Non-current assets and disposal groups held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Company retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Non-current assets and disposal groups that cease to be classified as held for sale are measured at the lower of its carrying amount before the assets or disposal groups were classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the assets or disposal groups not been classified as held for sale, and its recoverable amount at the date of the subsequent decision not to sell. Any required adjustment to the carrying amount of the non-current assets that cease to be classified as held for sale is included in profit or loss from continuing operations in the period in which the criteria of held for sale are no longer met.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 recognised on the trade date, that is, the date that the Company 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 Company's financial assets include cash and cash equivalents, loans and receivables, insurance and other receivables, amounts due from an immediate holding company, amounts due from fellow subsidiaries, amounts due from related companies, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

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 and short-term profit taking. Financial assets designated upon initial recognition at fair value through profit or loss are so designated only if the criteria under HKAS 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 HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented recognise in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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 as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 amortisation and the loss arising from impairment recognised 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 Company has the positive intention and ability to hold them to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 amortisation and the loss arising from impairment are recognised 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 as 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 unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial assets revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in net realised gains or losses on financial assets, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial assets revaluation reserve to net realised gains or losses in profit or loss. For available-for-sale financial debt securities, the difference between their cost and par value is amortised using the effective interest rate method. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in profit or loss as investment income in accordance with the policy set out for "Revenue recognition" below.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Available-for-sale financial assets (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company 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 Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised 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.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)
When the Company 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 Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

Impairment of financial assets
The Company 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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of any impairment loss identified 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Financial assets carried at amortised cost

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised 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 realised or has been transferred to the Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to 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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 assets, the Company 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 amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised 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 Company 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 Company 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 recognised in profit or loss - is removed from other comprehensive income and recognised 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 recognised directly in other comprehensive income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Available-for-sale financial assets (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset 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 subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities
Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include amounts due to subsidiaries, amounts due to fellow subsidiaries, amounts due to related companies, other payables, and derivative financial instruments.

Subsequent measurement

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 repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKAS 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 recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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 in HKAS 39 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities and insurance payables

Financial liabilities and insurance payables are derecognised 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 derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts, bond forward contracts, cross currency swaps and credit default swaps, to hedge its foreign currency risk, interest rate risk or other risks of the Company. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)
Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Company 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 consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent 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 recognised asset or liability or an unrecognised firm commitment; or
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedge

The change in the fair value of a hedging instrument is recognised in the profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the profit or loss as other expenses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)
Fair value hedge (continued)

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit or loss. The changes in the fair value of the hedging instrument are also recognised in the profit or loss.

Cash flow hedge

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Cash and cash equivalents
For the purpose of the 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 and form an integral part of the Company's cash management.

For the purpose of the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
A provision is recognised 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in investment income in profit or loss.

Income tax
Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities 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 Company operates.

Deferred tax is provided, using the liability method, on all 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 recognised 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 recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, 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 recognised 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 utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised 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 realised 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 and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

(a) Premium income
Gross recurring premiums on life insurance contracts and investment contracts with discretionary participation features, "DPF", are recognised as revenue when they are due with a corresponding premium receivable recognised. For single premium business, revenue is recognised on the date on which the policy becomes effective. For regular premium contracts, revenue is recognised when each premium instalment is due for payment in each period.

Estimates of premiums written as at the end of the reporting period but not yet received are included in premiums earned on deferred basis.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

(b) Fees and commission income
(1) Insurance and investment contract policyholders are charged for policy administration services, investment management services and surrenders. 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 recognised 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 as part of the measurement of insurance contract liabilities and recognised 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 recognised over the term of the contract. Regular fees charged at the end of the period in which the related service is performed, are accrued as a receivable.

(2) Commission income is recognised in profit or loss for the business ceded to reinsurers during the accounting year. The commission income charged is based on the premium ceded and several calculation parameters which are mutually agreed by both parties.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(c) Investment income
Interest income is recognised 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 amortisation of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex dividend.

(d) Realised gains and losses
Realised 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 amortised cost and are recorded on occurrence of the sale transaction.

(e) Management fees
Management fees are recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Company.

Other employee benefits

Paid leave carried forward

The Company 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 utilised 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

The Company operates a defined contribution retirement benefits scheme under the Occupational Retirement Scheme Ordinance 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 Company in an independently administered fund. When an employee leaves the scheme prior to his/her interest in the Company's employer contributions becoming fully vested, the ongoing contributions payable by the Company may be reduced by the relevant amount of forfeited contributions.

The Company 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 participate 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 Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Long service payments

Certain employees of the Company are eligible for long service payments according to the Hong Kong Employment Ordinance in the event of the termination of their employments. The Company is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
The financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Foreign currency transactions 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 ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised 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 measured. 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 the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Dividends to equity holders
The Company recognises a liability to make cash distributions to equity holders when the distribution is authorised and it is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity. Interim dividends are deducted from equity when they are declared and paid.

Insurance funds
The insurance funds represent the liability to life and annuity, linked long term, retirement schemes and permanent health policyholders. The IA has introduced HKRBC to the Hong Kong insurance industry, which supersedes the prior regulatory capital requirements under the Ordinance Cap. 41. The Company has obtained approval from the IA to early adopt HKRBC with effect from 30 June 2022. Under HKRBC, insurance funds are determined by the Company's appointed actuary in accordance with the Technical Specifications for Early Adoption issued by the IA ("Valuation Regulation").

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance
The Company cedes insurance risk in the normal course of business, with retention 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. Reinsurance assets and liabilities represent reinsurers' share of insurance contract liabilities after taking into account adjustments, if any, as required under the Valuation Regulation. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

Reinsurance assets are reviewed for impairment at the end of each reporting period or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in profit or loss and the Company reduces the carrying amount of reinsurance asset accordingly.

Gains or losses on buying reinsurance are recognised in profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Assumed liabilities represent the net balances due to reinsurance companies after taking into account adjustments, if any, as required under the Valuation Regulation. Amounts payable are estimated in a manner consistent with the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Insurance receivables
Insurance receivables are recognised 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 amortised 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 derecognised when the derecognition criteria for financial assets, as described in "Derecognition of financial assets" above, have been met.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Product classification

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Investment contracts

Investment contracts are those contracts that transfer significant financial risk but not significant insurance 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 price 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. These contracts are classified with and without DPF. Deposits collected and benefits payments under investment contracts with DPF are accounted for through profit or loss. Deposits collected and benefits payments under investment contracts without DPF are not accounted for through profit or loss, except for the investment income and fees attributed to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability, which reflects the account balance.

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 contracts and are therefore not separated subsequently. The fair values of insurance or investment contracts therefore include these options and guarantees intrinsic values and time values and their measurement is consistent with observed current market prices.

Insurance contract liabilities

Life insurance contract liabilities

Life 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 gross premium valuation method which represents the probability-weighted average of the present value of future liability cash flows. Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

Insurance contracts with fixed and guaranteed terms

A liability for contractual benefits that are expected to be incurred in the future is recorded when the insurance contracts are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and policy administration expenses, based on the valuation assumptions used. The liability is based on a set of best-estimate assumptions, key assumptions include mortality rates, morbidity rates, lapse rate, expense, and discount rates determined based on risk-free yield curves and portfolio asset returns adjusted by parameters specified by the IA.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contract liabilities (continued)
Insurance contracts with non-guaranteed terms

Portions of the Company's insurance contracts contain discretionary participation features, these consist of non-guaranteed annual dividend and non-guaranteed terminal dividend. Insurance contract liabilities for these contracts include provision for the non-guaranteed participation.

Insurance contracts without fixed terms with and without DPF

These liabilities values, which include the account value and a non-unit component determined in accordance with the Valuation Regulation, where account value captured the change in relation to the change in unit prices for unit linked contracts or by the credit interest for universal life contracts and are decreased by policy administration fees, mortality and maintenance expenses. Adjustments to the liabilities at each reporting date are also recorded in profit or loss as an expense.

Discretionary participation features ("DPF")

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio, such as policyholder dividends and bonuses. The Company has the discretion over the amount and timing of the distribution of these supplements to policyholders.

Liability adequacy test

At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision. This is not applicable to HKRBC in which the insurance liabilities are determined under current best estimates with a margin of prudence.

Investment contract liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities accounted under HKFRS 4. For investment contracts without DPF, HKAS 39 *Financial Instrument: Measurement and Recognition*, and, if the contract includes an investment management element, HKFRS 15 *Revenue from contracts with customers* are applied. The majority of the Company's contracts classified as investment contracts are unit-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 with a non-unit component determined in accordance with the Valuation Regulation. 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 "Revenue recognition" above. The fair value is established by the current unit fund value.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefits and claims
Life insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the period, reinsurance recoveries, as well as policyholder dividends accrued in anticipation of dividend declarations. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

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

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims and policyholder bonuses declared on DPF contracts as well as changes in the gross valuation of insurance and investment contract liabilities. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Share-based compensation
The Company launched a share-based compensation plan, under which the Company awards restricted shares units ("RSUs") and/or share options of the Company to eligible persons as part of compensation for services provided in achieving shareholder value targets. This share-based compensation plan is known as the FWD Share Option and RSU Plan.

The Company's share-based compensation plan is equity-settled plan. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the award of share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity. Under RSU compensation plan, the fair value of the employee services received in exchange for the award of share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in liabilities.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the RSUs and/or share options awarded on respective grant date. Non-market vesting conditions are included in assumptions about the number of RSUs and/or share options that are expected to be vested. At each period end, the Company revises its estimates of the number of RSUs and/or share options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to liabilities/equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

The Company estimates the fair value of the awards using appraisal value method (Embedded Value plus a multiple of Value of New Business) and market valuation approach, where applicable, for the RSUs and Black-Scholes model for the share options.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

Contingent liabilities
Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent assets

Contingent asset is disclosed where an inflow of economic benefits is probable. It is assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of derivative transactions and reinsurance arrangements, in order to reduce the credit risk of these transactions. The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the statement of financial position unless the Company sells these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Collateral pledged in the form of cash which is legally segregated from the Company is derecognised from the statement of financial position and a corresponding receivable established for its return. Non-cash collateral pledged is not derecognised (except in the event of default) and therefore continues to be recognised in the statement of financial position within the appropriate financial instrument classification.

Securities lending including repurchase agreements

The Company has been a party to various securities lending agreements under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised and so they continue to be recognised within the appropriate investment classification.

Assets sold under repurchase agreements (repos)

Assets sold under repurchase agreements continue to be recognised and a liability is established for the consideration received. The Company may be required to provide additional collateral based on the fair value of the underlying assets, and such collateral assets remain on the statement of financial position.

Assets purchased under agreements to resell (reverse repos)

The Company enters into purchases of assets under agreements to resell (reverse repos). Reverse repos are initially recorded at the cost of the loan or collateral advanced within the caption "Loans and receivables" in the statement of financial position. In the event of failure by the counterparty to repay the loan, the Company has the right to the underlying assets.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Key sources of estimation uncertainty and critical judgements in applying the Company's accounting policies which have a significant effect on the financial statements are set out below.

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

(a) *Income taxes and uncertain tax position*
Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company 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 all changes in tax laws. Hong Kong 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 develops, these taxation positions may change in the future.

The taxable profit of the Company is assessed using adjusted surplus basis as set out in the Inland Revenue Ordinance ("IRO"). Under adjusted surplus basis, the surplus shall be the amount by which the life insurance fund exceeds the estimated liability of the corporation on the life insurance fund at the end of the period the actuarial report submitted to the Insurance Authority under section 18 of the Insurance Ordinance (Cap. 41) (the "Actuarial Report") is made.

The Company, with reference to the IRO, believes that it would be adequate to include Available-For-Sale Financial Assets ("AFS") revaluation reserve and cash flow hedge reserve of life insurance fund in the current tax calculation on the grounds that the AFS revaluation and cash flow hedge reserves form part of the surplus in the Actuarial Report.

In this regards, deferred tax assets of US$272,053,000 related to AFS revaluation and cash flow hedge reserves was reclassified to current tax payable during the year. If the Inland Revenue Department ("IRD") disagrees with this treatment, the reclassification should be reversed and no additional tax expense should be incurred.

(b) *Valuation of deferred tax assets in respect of unused tax losses*
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits with future tax planning strategies.

Further details are discussed in note 23 to the financial statements.

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

Judgements (continued)

(c) *Product classification*
The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Company exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Company to pay significant additional benefits to its customers. In the event the Company has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the financial statements as insurance and investment contract liabilities. The accounting policy on product classification is described in note 2.5.

(d) *Liability adequacy testing*
The Company 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 Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The judgments exercised in liability adequacy testing affect amounts recognised in the financial statements such as insurance contract benefits and insurance and investment contract liabilities. The liability adequacy test is not applicable under HKRBC in which the insurance liabilities are determined under current best estimates with a margin of prudence.

(e) *Determining the lease term of contracts with renewal options*
The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

(f) *Contingent liabilities*
The Company applies judgement in evaluating whether contingent liability shall be disclosed or provision shall be recognised. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Further details are discussed in note 34 to the financial statements.

(g) *Contingent assets*
The Company applies judgement in evaluating whether contingent assets shall be disclosed. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. Contingent asset is disclosed, where economic benefits is probable. Further details are discussed in note 34 to the financial statements.

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

Estimates 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) *Life insurance contract liabilities*

The IA has introduced the HKRBC to the Hong Kong insurance industry, which supersedes the prior regulatory requirements under the Ordinance Cap. 41. The Company has obtained approval from the IA to early adopt HKRBC with effect from 30 June 2022. The methodology to determine the amount of liabilities follows the Technical Specification issued by the IA under HKRBC.

The estimation of the ultimate liability arising from claims made under life contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims.

For life insurance contracts, estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company based these estimates on standard industry and national mortality tables that reflects historical mortality experience, adjusted where appropriate to reflect the Company's unique risk exposure. Expected numbers of decrement associated with morbidity and lapse are also estimated based on past experiences. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in turn is monitored against current and future premiums.

For those contracts that insure risk to longevity, allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure. All of these results in even more uncertainty in estimating the ultimate liability.

On top of the best estimate assumptions, a margin for prudence covering insurance risks is setup in accordance with the Valuation Regulation. Estimates are also made as to future investment income arising from the assets backing life insurance contracts, at discount rates derived based on the risk-free yield curves, portfolio asset returns adjusted by parameters specified by the IA. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The carrying value at the end of the reporting period for these life insurance contracts was US$12,296,352,000 (2021: US$16,699,961,000).

(b) *Impairment of non-financial assets*

The Company assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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

Estimates and assumptions (continued)

(c) *Fair value of financial assets*

The Company 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 are provided in notes 2.5, 18, 19, 20 and 38.

(d) *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 Company 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 Company 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 reorganisation;
- 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.

For insurance receivables, the Company maintains an allowance for estimated loss as arising from the inability of its customers to make the required payments. The Company makes its estimates based on the ageing of its insurance receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Company would be required to revise the basis of making the allowance and its future results would be affected.

Further details of the impairment of financial assets during the year are provided in notes 2.5 and 18, 19 and 21.

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

Estimates and assumptions (continued)

(e) *Share-based compensation*
The Company has adopted the share-based compensation plan, to offers share options and RSUs to retain, motivate and align the interests of eligible officers of the Company. This share-based compensation plan is accounted for as equity-settled plan/cash- settled plan under which share options/RSUs are awarded.

The Company estimates the fair value of the awards using appraisal value method (Embedded Value plus a multiple of Value of New Business) for the RSUs and Black-Scholes model for the share options.

The Company determines the fair value of share options by following input:

- Dividend yield
- Expected share price volatility
- Risk-free interest rate
- Expected life of the share options
- Appraisal value per share, using the same valuation methodology as is used in the share award plan

The judgments exercised in the determination of share options fair value and the assessment of IRR achievement affect the amounts recognised in the financial statements as share-based payment expense and share option reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.5 and 33.

(f) *Leases - Estimating the incremental borrowing rate*
The Company cannot readily determine the interest rate implicit in a lease. It uses its intermediate holding company, FWD Limited's incremental borrowing rate ("IBR") as a proxy to measure lease liabilities. The IBR is the rate of interest that FWD Limited would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what FWD Limited and the Company "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR proxy using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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

Estimates and assumptions (continued)

(g) *Investment in subsidiaries*
The Company has elected to retain the fair value measurement applied by its subsidiary to investment properties when applying the equity method. Investment properties are stated at fair value based on valuations performed by management. In determining the fair value, management considers the estimated rental value of the property and applies the appropriate valuation methods, i.e., the capitalization method and discounted cash flow method. A valuation report with analysis of changes in fair value measurement is prepared at the end of each reporting date.

Further details of the investment in subsidiary are provided in notes 17 and 37.

(h) *Disposal group classified as held for sale*
On 18 June 2021, FWD Group ("the Group") entered into a framework agreement, pursuant to which the Group agreed to sell 100% of the share capital of FWD Assurance Vietnam Company Limited to third parties, subject to the terms set out in the agreement and execution of a Share Purchase Agreement. On 13 October 2021, the Share Purchase Agreement was executed, and the disposal was subject to regulatory approval. On 21 March 2022, FWD Assurance Vietnam Company Limited was disposed and the disposal group classified as held for sale was written off with gain on disposal recorded in the profit or loss.

4. NET PREMIUMS

	2022 US$'000	2021 US$'000
(a) Gross premiums		
Life insurance contracts		
With DPF	2,074,926	3,319,918
Without DPF	215,423	174,750
Total life insurance contracts	2,290,349	3,494,668
Investment contracts with DPF	-	3,687
Life insurance contracts from assumed reinsurance	307,265	44,687
Total gross premiums	2,597,614	3,543,042
(b) Reinsurers' share of gross premiums		
Life insurance contracts		
With DPF	(122,794)	(128,837)
Without DPF	(35,300)	(56,169)
Total life insurance contracts	(158,094)	(185,006)
Total net premiums	2,439,520	3,358,036

5. FEES, COMMISSION AND OTHER INCOME

	Notes	2022 US$'000	2021 US$'000
Commission incomes received from reinsurance arrangements		11,829	9,367
Management fees received from fellow subsidiaries	35(a)(i)	23,174	19,883
Management fees received from subsidiaries	35(a)(i)	6,443	1,479
Management fees received from related companies	35(a)(ix)	3,130	3,741
Policyholder administration services fee for insurance contracts		80,830	78,421
Trailer fee		3,678	4,657
		129,084	117,548

6. INVESTMENT INCOME

	2022 US$'000	2021 US$'000
Interest income on		
- available-for-sale financial assets	351,279	272,589
- financial assets at fair value through profit or loss	1,770	1,140
- held-to-maturity financial assets	14,821	17,375
- derivative financial instruments	2,959	(2,616)
- policy loans	5,539	4,723
- secured loans	143	112
- cash and cash equivalents	118	62
Total interest income	376,629	293,385
Dividend income on		
- available-for-sale financial assets	47,482	115,599
- financial assets at fair value through profit or loss	89,678	113,408
Impairment losses on available-for-sale financial assets (transfer from equity)	(63,421)	(15,611)
Provision for impairment losses on secured loans	(111)	(19)
Finance cost - Interest expense for repurchase agreements	(6,913)	(529)
Others	2,883	6,806
	446,227	513,039

7. NET REALISED (LOSS)/GAIN ON FINANCIAL ASSETS

	2022 US$'000	2021 US$'000
Realised gains on financial assets		
Available-for-sale financial assets (transfer from equity on disposal)	64,195	264,871
Financial assets at fair value through profit or loss	55,599	187,033
Held-to-maturity financial assets	2,778	-
Derivative financial instruments	55,634	42,313
Realised losses on financial assets		
Available-for-sale financial assets (transfer from equity on disposal)	(99,495)	(55,880)
Financial assets at fair value through profit or loss	(83,242)	(17,019)
Derivative financial instruments	(33,234)	(171,455)
	(37,765)	249,863

8. NET BENEFITS AND CLAIMS INCURRED

	2022 US$'000	2021 US$'000
(a) Gross benefits and claims paid		
Life insurance contracts benefits and claims paid		
With DPF	994,765	621,798
Without DPF	222,295	162,301
Total life insurance contracts benefits and claims paid	1,217,060	784,099
Investment contracts with DPF benefits and claims paid	9,383	9,663
Total gross benefits and claims paid	1,226,443	793,762
(b) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contracts benefits and claims paid		
With DPF	(97,220)	(29,402)
Without DPF	(32,443)	(37,932)
Total reinsurers' share of life insurance contracts benefits and claims paid	(129,663)	(67,334)

9. FEE AND COMMISSION EXPENSE

	2022 US$'000	2021 US$'000
Insurance contracts -		
Commission to agents, brokers and intermediaries	208,202	140,922
Investment contracts -		
Management fee to investment manager	-	1
	208,202	140,923

10. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging/(crediting):

	Notes	2022 US$'000	2021 US$'000
Auditor's remuneration		1,188	814
Depreciation of plant, equipment and software	14	7,106	7,442
Depreciation of right-of-use assets	15	18,385	20,025
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December	31(b)	508	127
Employee benefit expense (including directors' remuneration (note 11))			
Salaries, bonuses and allowances		124,269	111,906
Pension scheme contribution		4,803	4,473
Less: forfeited contribution		(136)	(143)
Net pension scheme contribution		4,667	4,330
		128,936	116,236
Interest expenses on lease liabilities	31(a)	1,891	1,517
Interest expenses on repurchase agreements		6,913	529
Impairment on investment on a subsidiary		-	5,149
Fair value gain on investments in subsidiaries		-	(44,815)
Foreign exchange differences, net		(27,665)	19,642

11. DIRECTORS' REMUNERATION

During the year, the directors of the Company received the following remuneration for their services rendered to the Company:

	2022 US$'000	2021 US$'000
Fees	204	181
Other emoluments:		
Salaries, allowances and benefits in kind	848	850
Performance related bonuses	1,834	1,324
Equity-settled share option expense	1,015	682
Pension scheme contribution	46	46
	3,743	2,902
	3,947	3,083
Aggregate amount of the emoluments of the three highest paid directors	2,843	2,310

12. 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.

	Note	2022 US$'000	2021 US$'000
Current		(343,946)	-
Deferred	23	(215,956)	(86,607)
Total tax expense for the year		(559,902)	(86,607)

During the year, US$272,053,000 of deferred tax asset in respect of AFS revaluation and cash flow hedge reserves are reclassified from deferred tax assets to current tax repayable as to align with the presentation in the Actuarial Report. Refer to note 23 for additional information on the associated impacts.

A reconciliation of the tax credit applicable to loss before tax at the statutory rate to the tax position at the effective tax rate and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2022 US$'000	2022 %	2021 US$'000	2021 %
Profit before tax	3,510,242		587,080	
Tax at the statutory tax rate	579,190	16.5	96,868	16.5
Income not subject to tax	(3,399)	(0.1)	(13,599)	(2.3)
Expenses not deductible for tax	693	0.0	4,412	0.8
Release of non-distributable surplus under HKRBC	(14,717)	(0.4)	-	-
Adjustments in respect of deferred tax of previous periods	(662)	(0.0)	(1,660)	(0.3)
Others	(1,203)	(0.0)	586	0.1
Income tax at the effective rate	559,902	16.0	86,607	14.8

13. BUSINESS ACQUISITIONS AND DISPOSALS

(a) Disposal group classified as held for sale

On 18 June 2021, FWD Group Holdings Limited ("the Group") entered into a framework agreement, pursuant to which the Group agreed to sell 100% of the share capital of FWD Assurance Vietnam Company Limited to third parties, subject to the terms set out in the agreement and execution of a Share Purchase Agreement. On 13 October 2021, the Share Purchase Agreement was executed, and the disposal is subject to regulatory approvals. Accordingly, FWD Assurance Vietnam Company Limited is classified as a disposal group held for sale.

As of 1 January 2022, the investment cost in FWD Assurance Vietnam Company Limited of US$40,000,000 is classified as asset held for sales. On 21 March 2022, FWD Assurance Vietnam Company Limited was disposed and the disposal group classified as held for sale was written off with gain on disposal recorded in the profit or loss.

14. PLANT, EQUIPMENT AND SOFTWARE

	Leasehold improvements US$'000	Motor vehicles US$'000	Furniture and fixtures US$'000	Computer equipment and software US$'000	Total US$'000
31 December 2022					
31 December 2021 and 1 January 2022:					
Cost	23,376	207	6,278	35,334	65,195
Accumulated depreciation	(20,749)	(159)	(5,234)	(25,467)	(51,609)
Net carrying amount	2,627	48	1,044	9,867	13,586
At 1 January 2022, net of accumulated depreciation	2,627	48	1,044	9,867	13,586
Additions	1,341	-	21	6,745	8,107
Disposals	(10)	-	(35)	(102)	(147)
Depreciation provided	(1,162)	(23)	(344)	(5,577)	(7,106)
At 31 December 2022, net of accumulated depreciation	2,796	25	686	10,933	14,440
At 31 December 2022:					
Cost	19,558	207	5,709	41,470	66,944
Accumulated depreciation	(16,762)	(182)	(5,023)	(30,537)	(52,504)
Net carrying amount	2,796	25	686	10,933	14,440

14. PLANT, EQUIPMENT AND SOFTWARE (continued)

	Leasehold improvements US$'000	Motor vehicles US$'000	Furniture and fixtures US$'000	Computer equipment and software US$'000	Total US$'000
31 December 2021					
At 1 January 2021:					
Cost	21,703	207	6,065	28,822	56,797
Accumulated depreciation	(18,308)	(135)	(4,909)	(20,871)	(44,223)
Net carrying amount	3,395	72	1,156	7,951	12,574
At 1 January 2021, net of accumulated depreciation	3,395	72	1,156	7,951	12,574
Additions	1,678	-	266	6,515	8,459
Disposals	(5)	-	-	-	(5)
Depreciation provided	(2,441)	(24)	(378)	(4,599)	(7,442)
At 31 December 2021, net of accumulated depreciation	2,627	48	1,044	9,867	13,586
At 31 December 2021:					
Cost	23,376	207	6,278	35,334	65,195
Accumulated depreciation	(20,749)	(159)	(5,234)	(25,467)	(51,609)
Net carrying amount	2,627	48	1,044	9,867	13,586

15. RIGHT-OF-USE ASSETS

The carrying amount of the Company's right-of-use assets and the movements during the year are as follows:

	Office premises US$'000	Carpark US$'000	Others US$'000	Total US$'000
As at 1 January 2021	31,785	3	6,294	38,082
Additions	38,255	-	-	38,255
Disposals	(428)	-	-	(428)
Depreciation charge	(17,534)	(3)	(2,488)	(20,025)
As at 31 December 2021 and 1 January 2022	52,078	-	3,806	55,884
Additions	17,261	-	-	17,261
Disposals	(517)	-	-	(517)
Depreciation charge	(15,894)	-	(2,491)	(18,385)
Exchange	-	-	(9)	(9)
At 31 December 2022	52,928	-	1,306	54,234

The Company obtains right to use various office premises and carparks for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of terms and conditions including lease payments and lease terms ranging from two to seven years.

During the year ended 31 December 2022, total cash outflow for leases of US$19,247,000 (2021: US$21,193,000) was included in net cash generated from operating activities and financing activities.

16. INTANGIBLE ASSETS

The carrying amount of the Company's intangible assets and the movements during the year are as follows:

	2022 US$'000	2021 US$'000
As at 1 January	981	-
Transfer	-	981
Amortisation	(3)	-
As at 31 December	978	981

17. INVESTMENTS IN SUBSIDIARIES

	Note	2022 US$'000	2021 US$'000
Unlisted shares, at cost		971,702	852,813
Impairment #		(14,779)	(14,779)
		956,923	838,034
Unlisted shares, at fair value	37	246,305	246,305
Total		1,203,228	1,084,339
Included in assets held for sale - unlisted shares, at cost		-	40,000

An impairment provision of US$14,779,000 (2021: US$14,779,000) was recognised for the unlisted investment in subsidiaries because the subsidiary requires continuing financial support from the Company.

17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries as at the end of the reporting period are as follows:

Name	Place of incorporation	Nominal value of issued ordinary shares	Percentage of ownership interest 2022 Direct %	2022 Indirect %	2021 Direct %	2021 Indirect %	Principal activity
FWD Financial Limited	Hong Kong	HK$115,322,561	100	-	100	-	Provision of consultancy, digital commerce research and development and insurance agency services
Future Radiance Limited	Cayman Islands	3 ordinary shares of US$1	100	-	100	-	Investment holding
Sky Accord Limited	Cayman Islands	3 ordinary shares of US$1	-	100	-	100	Property investment and management
FWD Vietnam Life Insurance Company Limited	Vietnam	VND18,546,000,000,000 (2021: VND16,961,000,000,000)	100	-	100	-	Underwriting of life insurance
FWD Properties Limited	Hong Kong	US$232,000,000 + HK$1	100	-	100	-	Investment holding
OGS (I) Limited	Cayman Islands	3 ordinary shares of US$1	-	100	-	100	Investment holding
OGS (II) Limited	Cayman Islands	3 ordinary shares of US$1	-	100	-	100	Investment holding
FWD Takaful Berhad	Malaysia	RM$100,000,000	49	-	49	-	Underwriting of life insurance
FWD Assurance VietNam Company Limited	Vietnam	VND600,000,000,000	-	-	100	-	Underwriting of life insurance

18. HELD-TO-MATURITY FINANCIAL ASSETS

	Note	2022 US$'000	2021 US$'000
Non-current:			
Held-to-maturity fixed interest securities, at amortised cost			
- listed		235,196	279,900
- unlisted		16,503	16,653
- issued by government, listed		9,122	9,200
		260,821	305,753
Current:			
Held-to-maturity fixed interest securities, at amortised cost			
- listed		43,786	62,537
- unlisted		-	29,372
		43,786	91,909
Total held-to-maturity financial assets at amortised cost		304,607	397,662
Market value of held-to-maturity financial assets	37	291,390	426,373

During the year, held-to-maturity financial assets with carrying amount of US$92,249,000 were redeemed by the bond issuer, resulting in realised gain of US$Nil (2021: US$Nil).

No provision for impairment is necessary in respect of held-to-maturity financial assets as no objective evidence of impairment exists (2021: US$Nil).

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	2022 US$'000	2021 US$'000
Non-current:			
Available-for-sale fixed interest securities, at fair value			
- listed		6,445,745	6,980,781
- unlisted		988,736	1,134,411
- issued by government, listed		1,449,367	1,714,276
- issued by government, unlisted		52,600	76,218
		8,936,448	9,905,686
Available-for-sale variable interest securities, at fair value			
- listed		120,667	534,244
- unlisted		344,530	345,717
		465,197	879,961
Current:			
Available-for-sale fixed interest securities, at fair value			
- listed fixed interest securities		298,968	115,329
- unlisted fixed interest securities		95,919	-
- issued by government, unlisted		137,528	342,998
Listed equity securities		275,950	442,148
Unlisted equity securities		773,936	877,151
Listed mutual funds		397,526	78,566
		1,979,827	1,856,192
Available-for-sale variable interest securities, at fair value			
- listed		-	601
		-	601
Total available-for-sale financial assets at fair value	37	11,381,472	12,642,440

During the year, the gross loss in respect of the Company's available-for-sale financial assets recognised in other comprehensive income amounted to US$2,694,627,000 (2021: US$116,315,000). Net realised loss of US$35,300,000 (2021: Net realised gain: US$208,991,000) and impairment of US$63,421,000 (2021: US$15,611,000) were reclassified from other comprehensive income to profit or loss.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

As at 31 December 2022, available-for-sale debt securities of US$376,824,000 (2021: US$196,947,000) are subject to repurchase and forward agreements, whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. The securities related to the repurchase and forward agreements are not de-recognised from the statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase and forward agreements, the Company is restricted from selling or pledging the transferred debt securities. Refer to note 30 for additional information on the associated liabilities.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2022 US$'000	2021 US$'000
Current:			
Fair value through profit or loss securities, at fair value			
- unlisted fixed interest securities		119,433	-
- unlisted unit trust		595,715	730,978
- listed equity securities		800,538	850,161
- unlisted equity securities		1,557,378	1,493,234
Total financial assets at fair value through profit or loss	37	3,073,064	3,074,373

All financial assets at fair value through profit or loss at 31 December 2022 and 2021 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

21. LOANS AND RECEIVABLES

	2022 US$'000	2021 US$'000
Policy loans	100,824	87,713
Secured loans	7,051	7,327
Accreting deposits	-	82,330
Provision for impairment	(602)	(493)
Total loans and receivables	107,273	176,877
Current loans and receivables	582	350
Non-current loans and receivables	106,691	176,527
	107,273	176,877

All loans and receivables are under long term business and belongs to life and annuity.

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 amortised cost, interest-bearing at market interest rate 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 6% (2021: 6%) per annum.

Secured loans are carried at amortised 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:

	2022 US$'000	2021 US$'000
At 1 January	493	474
Provision for impairment losses	109	19
At 31 December	602	493

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$7,051,000 (2021: US$7,327,000) with a carrying amount of US$6,449,000 (2021: US$6,834,000).

Accreting deposits are carried at amortised cost less any impairment losses. The carrying amounts of accreting deposits approximate to their fair values.

22. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Note	2022			2021		
		Contract/ notional amount US$'000	Carrying amount - asset US$'000	Carrying amount - liability US$'000	Contract/ notional amount US$'000	Carrying amount - asset US$'000	Carrying amount - liability US$'000
Forward currency contracts*		3,387,756	17,147	11,705	4,520,643	20,295	6,917
Bond forward contracts		(390,000)	35,744	-	149,000	298	909
Cross currency swap*		267,119	9,173	6,384	267,119	1,635	24,074
Equity warrants*		-	-	-	588	454	-
	37	3,264,875	62,064	18,089	4,937,350	22,682	31,900

*The forward currency contracts, cross currency swap and equity warrants that are not designated for hedge accounting purposes are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to US$31,946,000 (2021: US$57,204,000) were debited/ (credited) to the profit or loss during the year.

The carrying amounts of the derivative financial instruments are the same as their fair values.

Cash flow hedge
Several bond forward contracts are designated as hedging instruments in respect of the Company's highly probable forecast purchases of bonds. The terms of the bond forward contracts match the terms of the forecast transaction.

Several cross currency swaps are designated as hedging instruments in respect of the future cash flows of the Company's fixed income assets denominated in foreign currencies. The terms of the cross currency swaps match future cash flows of the fixed income assets.

The cash flow hedges were assessed to be highly effective and net losses of US$4,394,000 (2021: net gains of US$9,502,000) were included in the hedging reserve as follows:

	2022 US$'000	2021 US$'000
Total fair value (losses)/gains included in the hedging reserve	(5,262)	11,380
Deferred tax on fair value movement	868	(1,878)
Net (losses)/gains on cash flow hedges	(4,394)	9,502

Collateral under derivative transactions
As at 31 December 2022, the Company held debt securities collateral with a carrying value of US$16,862,000 (2021: US$9,591,784) for assets and posted cash collateral of US$36,188,000 (2021: US$1,716,000) and debt securities with a carrying value of US$43,855,000 (2021: US$18,748,762) for liabilities.

23. DEFERRED TAX

The components of deferred tax (liabilities)/assets recognised in the statement of financial position and the movements during the year are as follows:

	Revaluation of available-for-sale financial assets US$'000	Cash flow hedge and other temporary differences US$'000	Tax losses US$'000	Total US$'000
As at 1 January 2022	(111,377)	(11,876)	29,100	(94,153)
Deferred tax credited to profit or loss (note 12)	-	(186,856)	(29,100)	(215,956)
Deferred tax charged to other comprehensive income	405,538	868	-	406,406
Reclass to current tax liabilities (note 12)	(272,053)	258	-	(271,795)
As at 31 December 2022	22,108	(197,606)	-	(175,498)

	Revaluation of available-for-sale financial assets US$'000	Cash flow hedge and other temporary differences US$'000	Tax losses US$'000	Total US$'000
As at 1 January 2021	(165,474)	(15,278)	123,154	(57,598)
Deferred tax credited to profit or loss (note 12)	-	5,280	(91,887)	(86,607)
Deferred tax credited to profit or loss (discontinued operation)	-	-	(2,167)	(2,167)
Deferred tax charged to other comprehensive income	54,097	(1,878)	-	52,219
As at 31 December 2021	(111,377)	(11,876)	29,100	(94,153)

Included in the amount credited/(charged) to profit or loss are utilisation of deferred tax asset of US$29,100,000 in respect of cumulative tax losses (2021: recognition of deferred tax asset of US$94,054,000) and change in deferred tax arising from other temporary differences of US$186,856,000 (2021: US$5,280,000).

In 2022, the negative balance shown above of US$175,498,000 represents deferred tax liabilities of US$197,606,000 and deferred tax assets of US$22,108,000. In 2021, the negative balance shown above of US$94,153,000 represents deferred tax liabilities of US$123,254,000 and deferred tax assets of US$29,101,000.

24. REINSURANCE LIABILITIES/ASSETS

	Notes	2022 US$'000	2021 US$'000
Reinsurers' share of insurance contract liabilities			
- other than coinsurance arrangements	28	(83,069)	557,251
- under coinsurance arrangements	28(c)	-	1,209,857
Total		(83,069)	1,767,108

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 US$'000	2021 US$'000
Rental deposits	7,110	6,357
Prepayments	22,341	20,977
Interest receivables	112,685	96,099
Investment receivables	7,989	10,311
Other receivables	13,872	(924)
Total prepayments, deposits and other receivables	163,997	132,820

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

26. INSURANCE RECEIVABLES

	Note	2022 US$'000	2021 US$'000
Due from policyholders		83,574	147,110
Due from reinsurers	28	121,820	111,446
Total insurance receivables		205,394	258,556
Current insurance receivables		205,394	258,556

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.

26. INSURANCE RECEIVABLES (continued)

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 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 of its policy anniversary. The carrying amount of the premium deposit fund under reinsurance arrangement approximates to its fair value.

27. CASH AND BANK BALANCES

	2022 US$'000	2021 US$'000
Time deposits	-	42,330
Saving accounts	167,802	274,379
Current accounts	58,002	37,355
Cash on hand	1	1
	225,805	354,065

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 three months depending on the immediate cash requirements of the Company, 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 39 to the financial statements.

28. INSURANCE CONTRACT LIABILITIES

Life insurance contract liabilities may be analysed as follows:

	Notes	2022 Insurance contract liabilities US$'000	2022 Reinsurers' share of liabilities US$'000	2022 Net US$'000	2021 Insurance contract liabilities US$'000	2021 Reinsurers' share of liabilities US$'000	2021 Net US$'000
Provision for claims reported by policyholders		36,168	(74,013)	(37,845)	27,147	(34,713)	(7,566)
Provision for claims incurred but not reported ("IBNR")		23,954	(11,059)	12,895	22,417	(10,261)	12,156
Total claims reported and IBNR	26	60,122	(85,072)	(24,950)	49,564	(44,974)	4,590
Provision for insurance creditors	28(a), 26	927,163	(47,807)	879,356	929,499	(66,472)	863,027
Provision for insurance funds	28(b), 24	11,309,067	94,128	11,403,195	14,641,895	(557,251)	14,084,644
Liabilities under coinsurance arrangements	28(c), 24	-	-	-	1,079,003	(1,209,857)	(130,854)
Total life insurance contract liabilities		12,296,352	(38,751)	12,257,601	16,699,961	(1,878,554)	14,821,407

The related reinsurance assets will change in the same proportion as the underlying liabilities.

Reinsurance assets and insurance receivables are set out in notes 24 and 26.

The movements of liabilities related to insurance contracts are as follows:

(a) Provision for insurance creditors

	2022 US$'000	2021 US$'000
As at 1 January (2022: RBC basis; 2021: IO basis)	905,399	887,306
Decrease in suspense and deposit	(48,970)	(27,473)
Increase in liabilities on dividend and cash coupon	45,392	27,447
Increase in interest accrual	2,456	23,801
Increase in reinsurance payables	22,886	18,418
As at 31 December (2022: RBC basis; 2021: IO basis)	927,163	929,499
HKRBC adjustments	-	(24,100)
As at 31 December 2022 (2022 and 2021: RBC basis)	927,163	905,399

28. INSURANCE CONTRACT LIABILITIES (continued)

The movements of insurance contract liabilities under insurance contracts are as follows: (continued)

(b) Provision for insurance funds

	2022			2021		
	Insurance contract liabilities US$'000	Reinsurers' share of liabilities US$'000	Net US$'000	Insurance contract liabilities US$'000	Reinsurers' share of liabilities US$'000	Net US$'000
As at 1 January (2022: RBC basis; 2021: IO basis)	13,059,228	(157,003)	12,902,225	12,272,265	(610,220)	11,662,045
Premiums received	2,348,379	(207,673)	2,140,706	3,263,770	(40,104)	3,223,666
Liabilities paid for death, maturities, surrenders and other benefits payments	(1,655,388)	410,575	(1,244,813)	(878,831)	113,229	(765,602)
Interest accrual and change in unit price	541,179	(3,264)	537,915	622,724	(16,788)	605,936
Assumption change (Note)	(3,198,006)	51,333	(3,146,673)	(759,142)	273	(758,869)
Exchange differences	8,783	(95)	8,688	(21,525)	(4,998)	(26,523)
Others	204,892	255	205,147	142,634	1,357	143,991
As at 31 December (2022: RBC basis; 2021: IO basis)	11,309,067	94,128	11,403,195	14,641,895	(557,251)	14,084,644
HKRBC adjustments	-	-	-	(1,582,667)	400,248	(1,182,419)
As at 31 December 2022 (2022 and 2021: RBC basis)	11,309,067	94,128	11,403,195	13,059,228	(157,003)	12,902,225

Note : For the year ended 31 December 2022, the change in discount rate has decreased the gross insurance contract liabilities by US$2,527,379,678 and decreased the net insurance contract liabilities by US$2,482,446,919 respectively. The review on non-economic assumptions, including mortality, morbidity, lapse and expense, decreased the gross insurance contract liabilities by US$8,909,463 and decreased the net insurance contract liabilities by US$7,754,553. The discount rates are derived based on risk-free yield curves, portfolio weighted average spread, and parameters specified by the IA. Future dividend scales are adjusted in accordance with the dividend management policy.

28. INSURANCE CONTRACT LIABILITIES (continued)

The movements of insurance contract liabilities under insurance contracts are as follows:

(c) Liabilities under coinsurance arrangements

Upon the regulatory change of HKRBC implementation, it is expected that policies ceded under coinsurance arrangements with Munich Reinsurance Company will be recaptured in 2023.

	2022			2021		
	Reinsurance liabilities from coinsurance US$'000	Reinsurance assets from coinsurance US$'000	Net US$'000	Reinsurance liabilities from coinsurance US$'000	Reinsurance assets from coinsurance US$'000	Net US$'000
As at 1 January (2022: RBC basis; 2021: IO basis)	-	-	-	1,021,030	(1,471,510)	(450,480)
Other movements under coinsurance with funds withheld arrangement						
- Premiums received	-	-	-	-	(85,535)	(85,535)
- Liabilities paid for death, maturities, surrenders and other benefits payments	-	-	-	-	37,463	37,463
Increase in reinsurance payables	-	-	-	57,973	309,725	367,698
As at 31 December (2022: RBC basis; 2021:IO basis)	-	-	-	1,079,003	(1,209,857)	(130,854)
HKRBC adjustments	-	-	-	(1,079,003)	1,209,857	130,854
As at 31 December 2022 (2022 and 2021: RBC basis)	-	-	-	-	-	-

29. INVESTMENT CONTRACT LIABILITIES

	Note	2022 Gross and net investment contract liabilities US$'000	2021 Gross and net investment contract liabilities US$'000
Investment contract liabilities			
- investment contract liabilities with DPF		60,016	68,768
- investment contract liabilities without DPF		108,636	149,037
		168,652	217,805
Disposal group held for sale			
- investment contract liabilities with DPF		-	-
- investment contract liabilities without DPF		-	-
		-	-

The movements of investment contract liabilities are as follows:

(a) Investment contract liabilities with DPF

	2022 US$'000	2021 US$'000
As at 1 January (2022: RBC basis; 2021: IO basis)	70,562	129,053
Premiums received	2,814	10,530
Surrenders	(7,498)	(67,674)
Interest accrual and change in unit price	1,918	878
Others	(7,780)	(4,019)
As at 31 December (2022: RBC basis; 2021: IO basis)	60,016	68,768
HKRBC adjustments	-	1,794
As at 31 December 2022 (2022 and 2021: RBC basis)	60,016	70,562

Included in the disposal group held for sale

	2022 US$'000	2021 US$'000
As at 1 January	-	254,588
Premiums received and change in market value	-	10,377
Surrenders	-	(11,199)
Transfer out of funds	-	(253,766)
As at 31 December	-	-

29. INVESTMENT CONTRACT LIABILITIES (continued)

The movements of investment contract liabilities are as follows: (continued)

(b) Investment contract liabilities without DPF

	2022 US$'000	2021 US$'000
As at 1 January (2022: RBC basis; 2021: IO basis)	147,535	176,640
Premiums received	500	605
Withdrawals	(26,034)	(21,134)
Interest accrual and change in unit price	(13,124)	(6,062)
Others	(241)	(1,012)
As at 31 December (2022: RBC basis; 2021: IO basis)	108,636	149,037
HKRBC adjustments	-	(1,502)
As at 31 December 2022 (2022 and 2021: RBC basis)	108,636	147,535

<u>Included in the disposal group held for sale</u>

	2022 US$'000	2021 US$'000
As at 1 January	-	120,578
Premiums received	-	1,278
Withdrawals	-	(1,879)
Net investment income	-	300
Expenses	-	(26)
Interest accrual and change in unit price	-	397
Transfer out of funds	-	(120,648)
As at 31 December	-	-

30. OTHER PAYABLES AND ACCRUED LIABILITIES

	2022 US$'000	2021 US$'000
Accrued commission to agents, brokers and intermediaries	71,942	78,036
Obligations under repurchase agreements	399,790	190,937
Others	171,397	102,236
	643,129	371,209

Other payables and accrued liabilities are non-interest bearing and repayable within a year. The carrying amounts of the other payables and accrued liabilities approximate to their fair values.

31. LEASE LIABILITIES

The Company as a lessee
The Company has lease contracts for various office premises, residential units, carparks, office equipment, IT-related and other assets.

(a) Lease liabilities
The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 US$'000	2021 US$'000
Carrying amount at 1 January	55,634	38,310
New leases	15,586	37,000
Accretion of interest expenses during the year	1,891	1,517
Payments	(18,572)	(21,193)
Exchange	(675)	-
Carrying amount at 31 December	53,864	55,634
Analysed into:		
Current portion	15,559	1,070
Non-current portion	38,305	54,564
Carrying amount at 31 December	53,864	55,634

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 US$'000	2021 US$'000
Finance costs - interest on lease liabilities	1,891	1,517
Depreciation charge of right-of-use assets	18,385	20,025
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December	508	127
Total amount recognised in profit or loss	20,784	21,669

32. SHARE CAPITAL AND DIVIDENDS

(a) Share capital

	2022 US$'000	2021 US$'000
Authorised Share Capital (note (iii))	3,000,000	3,000,000
Issued and fully paid:		
1,784,143,000 (2021: 865,328,000) ordinary shares (note (i))	1,784,143	865,328
Nil (2021: 709,926) preference shares (note (ii))	-	709,926
	1,784,143	1,575,254

Notes:

(i) On 21 January 2022, the Company issued 70,116,300 ordinary shares of US$1 each to FWD Management Holdings Limited, with a total consideration of US$70,116,300.

On 8 February 2022, the Company issued 26,651,100 ordinary shares of US$1 each to FWD Management Holdings Limited, with a total consideration of US$26,651,100.

On 29 March 2022, the Company issued 50,000,000 ordinary shares of US$1 each to FWD Management Holdings Limited, with a total consideration of US$50,000,000.

On 8 April 2022, the Company issued 40,000,000 ordinary shares of US$1 each to FWD Management Holdings Limited, with a total consideration of US$40,000,000.

On 24 June 2022, the Company issued 709,926,000 ordinary shares of US$1 each to FWD Management Holdings Limited, with a total consideration of US$709,926,000.

On 3 November 2022, the Company issued 22,121,100 ordinary shares of US$1 each to FWD Management Holdings Limited, with a total consideration of US$22,121,100.

(ii) On 24 June 2022, the Company redeemed 709,926 preference shares of US$1,000 each.

(iii) On 8 April 2021, the authorised share capital of the Company was increased from US$1,500,000,000 to US$3,000,000,000 by creation of 1,500,000,000 additional ordinary shares of par value US$1.00 each.

(b) Dividends

During the year, no dividends (2021: Nil) were declared to the holder of non-voting preference shares. Non-cumulative dividend is granted at the discretion of the Company.

33. SHARE-BASED COMPENSATION

Eligible employees are granted the Share Option and RSU Plan operated by the intermediate holding company, FWD Limited, to reward service and the achievement of shareholder value targets. These RSUs and share options are in the form of a contingent right to receive ordinary shares or a conditional allocation of ordinary shares. These awards have vesting periods of up to four years and are at nil or nominal cost to the eligible person. Save for in certain circumstances, vesting of awards is conditional upon the eligible person being in active employment at the time of vesting. Vesting of certain other awards is, in addition, subject to certain performance conditions. Award holders do not have any right to dividends or voting rights attaching to the shares prior to delivery of the shares. Each share option has a 10-year exercise period.

(a) Share options

The following table shows the movement in outstanding share options under the Company's Share Option and RSU Plan:

Number of share options

	2022	2021
At beginning of year	87,404	113,389
Vested during the year	(24,260)	(24,510)
Forfeited during the year	(11,765)	(1,475)
At end of year	51,379	87,404

Valuation methodology
To calculate the fair value of the awards with performance conditions, the Company estimates the fair value of share options using the Black-Scholes model and an assessment of performance conditions, 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 Company determines the fair value of share options by following input:

	2022	2021
• Dividend yield (%)	N/A	N/A
• Expected share price volatility (%)	N/A	N/A
• Risk-free interest rate (%)	N/A	N/A
• Expected life of share options (years)	N/A	N/A
• Exercise price (US$ per share)	N/A	N/A
• Weighted average share price (US$ per share)	N/A	N/A

33. SHARE-BASED COMPENSATION (continued)

Valuation methodology (continued)

The expected volatility reflects the assumption that historical volatility patterns continue, which may not be the actual outcome.

Share price per share is determined by appraisal value per share, using the same valuation methodology as is used in the RSUs.

Number of share options exercised during the year was 98,921 (2021: Nil).

No share options were granted during the year ended 31 December 2022. (2021: Nil)

Recognised compensation cost

The fair value of the employee services received in exchange for the grant of share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total expense recognised in the financial statements related to share options granted under the Share Option and RSU Plan by the Company for the year ended 31 December 2022 is US$1,509,000 (2021: US$2,069,000).

(b) RSUs

The following table shows the movement in outstanding RSUs under the Company's Share Option and RSU Plan:

Number of shares

	2022	2021
At beginning of year	11,411	-
Granted during the year	57,664	11,411
Forfeited during the year	(5,679)	-
Transferred during the year	2,058	-
At end of year	65,454	11,411

Valuation methodology

To calculate the fair value of the awards with performance conditions, the Company utilises an appraisal value method (Embedded Value plus a multiple of Value of New Business) and market valuation approach, where applicable and an assessment of performance conditions, taking into account the terms and conditions upon which the awards were granted. The fair value calculated for the awards is inherently subjective due to the assumptions made.

The total fair value of RSUs granted in 2022 is US$6,164,000 (2021: US$3,563,000).

33. SHARE-BASED COMPENSATION (continued)

(b) RSUs (continued)

Recognised compensation cost

The fair value of the employee services received in exchange for the grant of RSUs is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in liabilities.

The total expense recognised in the financial statements related to RSUs granted under the Share Option and RSU Plan by the Company for the year ended 31 December 2022 is US$1,864,000 (2021: US$707,000).

34. COMMITMENTS AND CONTINGENCIES

Contingencies
There were alleged premium misappropriation complaint cases against an intermediary of the Company. The cases are still under investigation, and the Company will assess if they require settlement actions include the offering of financial compensation to the complainants. The potential financial compensation was around US$124,000 (2021: US$1,000,000) as at the date of this report.

Certain agents were involved in the fraudulent selling of policies. The Company has been taking action against these agents to claw back the recruitment packages. Repayment arrangement is made with certain agents and the amount related is US$2,769,000 (2021: US$5,500,000).

Investment and capital commitments
As of 31 December 2022 and 2021, the Company has investment and capital commitments to invest in its private equity partnerships.

	2022 US$'000	2021 US$'000
Within one year	122,082	160,454
In the second to fifth years, inclusive	488,327	641,817
Total	610,409	802,271

Commitments in Malaysia
As of 31 December 2022, the Company had planned to invest a total of US$26,000,000 (2021: US$98,000,000) in Malaysia until 2024.

35. RELATED PARTY TRANSACTIONS

A portion of the Company's business is represented by transactions with certain related companies and these financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following related parties transactions during the year:

(i) The Company charged US$23,174,000 (2021: US$19,354,000) to fellow subsidiaries and US$6,443,000 (2021: US$2,008,000) to subsidiaries for provision of management services and HR services. The management service fees were in accordance with terms mutually agreed by the parties.

(ii) The Company entered into a risk premium reinsurance agreement with a fellow subsidiary of the Company to transfer 70% risk of a specified block of policies underwritten by the fellow subsidiary on 1 January 2017. The total premium revenue, total commission expense, and claims paid based on the terms determined between the Company and the fellow subsidiary, under the risk premium reinsurance agreement for the year were US$684,000, US$196,000 and US$121,000 (2021: US$622,000, US$200,000 and US$Nil), respectively.

(iii) The Company entered into a coinsurance agreement with fellow subsidiaries of the Company during the year 2021. The total premium revenue, total commission expense, and claims paid based on the terms determined between the Company and fellow subsidiaries, under the coinsurance agreement for the year were US$282,963,000, US$77,769,000 and US$79,000 (2021: US$44,064,000, US$43,158,000 and US$50,000), respectively.

(iv) The Company charged telecommunication and maintenance fee of US$Nil (2021: US$43,000) from a related company based on terms mutually agreed by both parties.

(v) The Company paid US$5,621,000 (2021: US$Nil) advertising expenses to related parties for several promotion campaigns on terms mutually agreed by the parties.

(vi) The Company received premium discount of US$1,774,000 (2021: US$Nil) from a subsidiary on terms mutually agreed by the parties.

(vii) A fellow subsidiary participated in a retirement scheme administered by the Company on terms mutually agreed by both parties. Total contribution received from the fellow subsidiary and its scheme members to the scheme for the year amounted to US$Nil (2021: US$855,000).

(viii) The Company paid telecommunication and maintenance fee of US$2,341,000 (2021: US$3,567,000) to related companies and US$Nil (2021: US$176,000) to a fellow subsidiary for the information technology supporting services received, and investment management fee of US$11,585,000 (2021: US$13,403,000) to a related company for investment management services received, in accordance with terms mutually agreed by parties. Such investment management services relate to a key outsourcing arrangement, which is subject to the Company's outsourcing policy developed based on Guideline 14 issued by the IA.

35. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following related parties transactions during the year: (continued)

(ix) The Company paid US$32,863,000 (2021: US$27,146,000) to related companies and US$8,518,000 (2021: US$4,767,000) to fellow subsidiaries for administration, consultancy and management services received and reimbursed US$3,130,000 (2021: US$3,741,000) from related companies for the IT and HR services. The transactions were based on terms mutually agreed by both parties.

(x) The Company sold life and medical insurance policies for its staff and agents to related companies on terms mutually agreed by the parties. Total insurance incomes from the related companies for the year amounted US$8,664,000 (2021: US$1,347,000).

(xi) The Company paid US$2,055,000 (2021: US$2,025,000) to a related company for the branding services received based on terms mutually agreed by both parties.

(xii) The Company paid commissions of US$74,000 and US$2,844,000 (2021: US$184,000 and US$117,000) to a fellow subsidiary and a subsidiary, respectively, based on terms mutually agreed by both parties.

(xiii) The Company has entered into reinsurance contracts with a related company. The total premium ceded, claim recovery received and commission income received for the year were US$2,594,000, US$973,000 and US$182,000 (2021: US$3,688,000, US$6,086,000 and US$1,193,000), respectively.

(xiv) The Company received dividend income from a subsidiary for the year amounted to US$Nil (2021: US$5,898,000)

(xv) The Company paid cash dividend to a related person for the year amounted to US$2,000 (2021: US$Nil).

(b) All balances with related parties as disclosed in the statements of financial position are unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Company:

	2022 US$'000	2021 US$'000
Salaries, allowances and benefits in kind	6,626	6,403
Performance related bonuses	6,286	4,410
Pension scheme contribution	355	333
Equity-settled share option expenses	1,509	2,069
RSU expenses	1,347	707
Total compensation paid to key management personnel	16,123	13,922

Further details of directors' emoluments are included in note 11 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Company, other than insurance and investment contract liabilities and associated reinsurance assets, as at the end of the reporting period are as follows:

31 December 2022

Financial assets

	Held-to-maturity financial assets US$'000	Available-for-sale financial assets US$'000	Financial assets at fair value through profit or loss US$'000	Loans and receivables US$'000	Total US$'000
Financial assets					
Held-to-maturity financial assets	304,607	-	-	-	304,607
Available-for-sale financial assets	-	11,381,472	-	-	11,381,472
Financial assets at fair value through profit or loss	-	-	3,073,064	-	3,073,064
Loans and receivables	-	-	-	107,273	107,273
Derivative financial instruments	-	-	62,064	-	62,064
Deposits and other receivables	-	-	-	141,656	141,656
Insurance receivables	-	-	-	205,394	205,394
Due from an immediate holding company	-	-	-	5	5
Due from subsidiaries	-	-	-	14,192	14,192
Due from fellow subsidiaries	-	-	-	348,803	348,803
Due from related companies	-	-	-	8,945	8,945
Cash and cash equivalents	-	-	-	225,805	225,805
	304,607	11,381,472	3,135,128	1,052,073	15,873,280

Financial liabilities

	Financial liabilities at fair value through profit or loss US$'000	Financial liabilities at amortised cost US$'000	Total US$'000
Due to subsidiaries	-	238,808	238,808
Due to fellow subsidiaries	-	9,177	9,177
Due to intermediate holding company	-	1,213	1,213
Due to related companies	-	27,125	27,125
Financial liabilities			
Derivative financial instruments	18,089	-	18,089
Other payables and accrued liabilities	-	643,129	643,129
Lease liabilities	-	53,864	53,864
	18,089	973,316	991,405

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments of the Company, other than insurance and investment contract liabilities and associated reinsurance assets, as at the end of the reporting period are as follows: (continued)

31 December 2021

Financial assets

	Held-to-maturity financial assets US$'000	Available-for-sale financial assets US$'000	Financial assets at fair value through profit or loss US$'000	Loans and receivables US$'000	Total US$'000
Financial assets					
Held-to-maturity financial assets	397,662	-	-	-	397,662
Available-for-sale financial assets	-	12,642,440	-	-	12,642,440
Financial assets at fair value through profit or loss	-	-	3,074,373	-	3,074,373
Loans and receivables	-	-	-	176,877	176,877
Derivative financial instruments	-	-	22,682	-	22,682
Deposits and other receivables	-	-	-	111,843	111,843
Insurance receivables	-	-	-	258,556	258,556
Due from an immediate holding company	-	-	-	5	5
Due from subsidiaries	-	-	-	5,117	5,117
Due from fellow subsidiaries	-	-	-	118,465	118,465
Due from related companies	-	-	-	2,948	2,948
Cash and cash equivalents	-	-	-	354,065	354,065
	397,662	12,642,440	3,097,055	1,027,876	17,165,033

Financial liabilities

	Financial liabilities at fair value through profit or loss US$'000	Financial liabilities at amortised cost US$'000	Total US$'000
Due to subsidiaries	-	241,873	241,873
Due to fellow subsidiaries	-	2,564	2,564
Due to intermediate holding company	-	707	707
Due to related companies	-	21,406	21,406
Financial liabilities			
Derivative financial instruments	31,900	-	31,900
Other payables and accrued liabilities	-	371,209	371,209
Lease liabilities	-	55,634	55,634
	31,900	693,393	725,293

37. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair value of each of the categories of financial instruments of the Company, other than insurance and investment contract liabilities and associated reinsurance assets, as at the end of the reporting period are as follows:

Assets measured at fair value

31 December 2022

	Notes	Fair value measurement using: Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Investment in subsidiaries	17	-	-	246,305	246,305
Available-for-sale financial assets	19	1,678,486	8,929,050	773,936	11,381,472
Financial assets at fair value through profit or loss	20	800,537	803,403	1,469,124	3,073,064
Derivative financial instruments	22	-	62,064	-	62,064
		2,479,023	9,794,517	2,489,365	14,762,905

31 December 2021

	Notes	Fair value measurement using: Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Investment in subsidiaries	17	-	-	246,305	246,305
Available-for-sale financial assets	19	1,844,432	9,920,856	877,152	12,642,440
Financial assets at fair value through profit or loss	20	850,161	730,978	1,493,234	3,074,373
Derivative financial instruments	22	-	22,682	-	22,682
		2,694,593	10,674,516	2,616,691	15,985,800

37. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of each of the categories of financial instruments of the Company, other than insurance and investment contract liabilities and associated reinsurance assets, as at the end of the reporting period are as follows: (continued)

Liabilities measured at fair value

	Note	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
31 December 2022					
Derivative financial instruments	22	-	18,089	-	18,089
31 December 2021					
Derivative financial instruments	22	-	31,900	-	31,900

The movement in fair value measurements in the Company's Level 3 financial assets during the year is as follows:

	2022 US$'000	2021 US$'000
Financial assets - unlisted		
At 1 January	2,616,691	1,723,299
Fair value gains recognised in profit or loss included in fair value gains on financial assets	(273,248)	292,866
Fair value gains recognised in other comprehensive income	(108,953)	131,757
Impairment losses	(2,111)	-
Purchases	616,419	468,769
Disposal	(359,433)	-
At 31 December	2,489,365	2,616,691

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2021: Nil).

37. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Assets for which fair values are disclosed

31 December 2022

	Note	Fair value measurement using Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Held-to-maturity financial assets	18	-	291,390	-	291,390

31 December 2021

	Note	Fair value measurement using Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Held-to-maturity financial assets	18	-	426,373	-	426,373

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of loans and receivables and financial liabilities at amortised cost 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 investments are based on quoted market prices.

The fair values of fixed income securities are valued by quoted market price, independent valuation provider or third-party broker. The carrying amounts of available-for-sale fixed income securities are equal to their fair values.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted private equity funds and hedge funds are based on the reported net asset value ("NAV") in their financial statements. Management has obtained the most recent quarter-end NAV statements that are available 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 Company from disposing the investments, the Company'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 2022, NAV adjusted downward by US$10,306,000 (2021: US$Nil). Management also engaged an external fund manager to perform independent review for rolling the reported NAV forward in arriving their fair value as at the end of reporting period. The management believe that the fair values resulting from the reported NAV, which are recorded in the 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. Assuming 5% increase/decrease on the NAV, the impact on the fair value before any tax impact for the unlisted private equity and hedge funds is US$112,153,000 (2021: US$118,519,000).

The Company enters into derivative financial instruments with various counterparties, principally financial institutions with sound credit ratings. Derivative financial instruments are measured using valuation technique similar to forward pricing and swap models. The model incorporates various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of these financial instruments are the same as their fair values.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Management Framework

The Company's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organisation within its stated risk appetite. The framework includes an established risk governance structure consisting of the Board of Directors and the three lines of defence, with clear oversight and assignment of responsibility for monitoring, managing and considering financial and non-financial risks in business strategy and decision making. The first line of defence consists of business functions which maintain a system of internal controls to mitigate risks. The second line of defence comprises the Risk function and the Compliance function. Compliance follows the Company's Compliance Risk Management Framework, works with the Risk function and Legal function to assist the first line of defence in complying with relevant regulations. Internal Audit as the third line of defence reports to the Audit Committee.

The Company issues contracts that transfer insurance risks or financial risks or both. The insurance risks and financial risks associated with the Company's operation and the Company's management of these risks are summarised below:

Insurance risks

(1) Life insurance contracts and investment contracts

(i) Terms and conditions

Life insurance contracts offered by the Company include whole life, term insurances, endowment and other products that insure against morbidity risks including health, disability, critical illness and personal accident. These products pay lump sum, monthly benefit, or reimbursement for medical expenses upon occurrences of insured events.

The Company issues investment contracts which are unlisted investment funds without DPF. The Company also issues retirement products that credit interest to each participant's account according to investment performance of the underlying fund, with minimum guarantee on the credit interest. In addition, the Company issues endowment products with DPF.

(ii) Key assumptions

Professional judgement is required in determining the liabilities and in the choice of assumptions relating to both life insurance contracts and investment contracts. Assumptions in use are based on past experience, current internal data and conditions and external market indexes and benchmarks, which reflect current observable market prices and other published information. Assumptions are determined as the best estimates of the Company at the date of valuation provided with a margin for prudence. Assumptions are evaluated on a continuous basis in order to ensure reasonable valuations and conformation with regulations.

For insurance contracts and endowment products with DPF, the Company determines the assumptions at each reporting date in relation to future mortality, morbidity, lapse, expense and discount rates.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risks (continued)

(1) Life insurance contracts and investment contracts (continued)
(ii) Key assumptions (continued)

For investment contracts without DPF, the liability equals to the fair value of the net asset value.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows.

Mortality and morbidity rates
Assumptions are based on standard industry/national mortality table, reinsurance premium rates and loss ratio, according to the type of contract written and the territory in which the insured person resides, reflecting mortality experience and which are adjusted where appropriate to reflect the Company's own experience.

An increase in mortality rates will lead to an increase in anticipated deaths, which will increase the liabilities and reduce profits for the shareholders, with the exception for annuity products with longevity risks which account for an immaterial portion of the inforce portfolio.

Lapse rates
The lapse assumptions are based on the Company's lapse experience study on product group level.

Discount Rates
The discount rate is derived on a portfolio basis based on the risk-free yield curves and weighted average spread of the portfolio at the valuation date, as well as the parameters specified by the IA. These estimates are based on current market returns as well as the Company's asset backing life insurance contracts in accordance with the restrictions imposed by regulations.

In general, an increase in bond yields would lead to a reduction in liabilities and an increase in profits for the shareholders.

Expense assumptions
The future expense assumptions are based on the Company's expense experience study as well as expectations on inflation. The expense assumption includes allowance for future expense overrun.

Increase in expenses assumption would lead to an increase in liabilities and reduce profits for the shareholders.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risks (continued)

(1) Life insurance contracts and investment contracts (continued)

(ii) Key assumptions (continued)

The assumptions that have the greatest effect on the statement of financial position and profit or loss of the Company are as follow:

Discount rates	The discount rates are derived on a portfolio basis based on risk-free yield curves, portfolio weighted average spread and parameters specified by the IA
Mortality rates	60% of Modified HKA01 (2021: 72%)
Morbidity rates	Best estimated assumption
Lapse rates	Best estimated assumption
Expense assumptions	Best estimated assumption including provision for future expense overrun, with 2.3% inflation p.a.
Margin for prudence	Risk margin on top of the best estimate assumptions which provides for a 75% probability of adequacy for insurance risks

(iii) Sensitivities

The Company issues contracts that provide protection against mortality risk and morbidity risk (including health, disability, critical illness and personal accident). The risk under an insurance contract is that an insured event occurs and the uncertainty of the amount and timing of the claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the estimated amount. Insurance events are random and the actual number and amount of claims and benefit will vary year to year from the estimate established using statistical techniques.

Experience shows that the variability of outcome is reduced by having a larger pool of contracts that insure similar risk. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as use of reinsurance arrangements. Catastrophe reinsurance is procured to limit catastrophic losses. It should be noted, however, that although the Company 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.

It is the Company's policy that the trends and claims experience for insurance risks are continuously reviewed to ensure that the policies, guidelines and limits put in place to manage the risks remain adequate and appropriate.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risks (continued)

(1) Life insurance contracts and investment contracts (continued)
(iii) Sensitivities (continued)

The table below sets out the concentration of insured death benefits across five bands of benefits per individual life assured.

Death benefit per life insured as at 31 December 2022 US$'000	Gross death benefit US$ million	Reinsurers' share of death benefit US$ million	Net death benefit US$ million
0-50	3,553	(1,033)	2,520
50-100	4,884	(2,035)	2,849
100-200	9,912	(3,843)	6,069
200-1,000	13,535	(6,924)	6,611
Greater than 1,000	8,791	(2,374)	6,417
Total	40,675	(16,209)	24,466

Death benefit per life insured as at 31 December 2021 US$'000	Gross death benefit US$ million	Reinsurers' share of death benefit US$ million	Net death benefit US$ million
0-50	3,244	(1,352)	1,892
50-100	5,025	(2,487)	2,538
100-200	11,015	(4,673)	6,342
200-1,000	13,104	(5,780)	7,324
Greater than 1,000	7,979	(2,321)	5,658
Total	40,367	(16,613)	23,754

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risks (continued)

(1) Life insurance contracts and investment contracts (continued)
(iii) Sensitivities (continued)

Sensitivity analyses produced below are based on the increase/decrease in mortality, morbidity and lapse experience in 2022 and 2021:

	Impact on 2022 loss before tax		Impact on 2021 profit before tax	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
	US$'000	US$'000	US$'000	US$'000
Mortality				
Gross impact	(3,007)	3,007	(1,387)	1,387
Net of reinsurance	(2,879)	2,879	(1,322)	1,322
Morbidity				
Gross impact	(13,808)	13,808	(10,921)	10,921
Net of reinsurance	(13,093)	13,093	(9,873)	9,873
Lapse				
Gross impact	(14,583)	14,583	N/A	N/A
Net of reinsurance	(12,719)	12,719	N/A	N/A

Assumptions:

(a) Mortality - increase/decrease of 10%
The impact was estimated as 10% of incurred claims within 2022, less the release in reserve. The impact due to interaction of additional claims and lapse of the underlying policies was not included in calculation. As the actuarial assumptions will not be changed due to temporary fluctuation in experience, there was no change in insurance liability in the calculation.

(b) Morbidity - increase/decrease of 10%
The impact was estimated as 10% of incurred claims within 2022, less the release in reserve. The impact due to interaction of additional claims and lapse of the underlying policies was not included in calculation. As the actuarial assumptions will not be changed due to temporary fluctuation in experience, there was no change in insurance liability in the calculation.

(c) Lapse - increase/decrease of 10%
The impact was estimated as 10% of incurred claims within 2022, less the release in reserve. The impact due to interaction of additional claims and lapse of the underlying policies was not included in calculation. As the actuarial assumptions will not be changed due to temporary fluctuation in experience, there was no change in insurance liability in the calculation.

(d) Reinsurance: the same proportion (10%) was applied to the reinsurance recoverable. Impact on profit sharing was included.

A substantial portion of the Company's life insurance fund is participating in nature. In the event of volatile investment environment and/or unusual claims experience, the Company has the option of adjusting the bonus and dividends payable to policyholders.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risks (continued)

(1) Life insurance contracts and investment contracts (continued)
(iii) Sensitivities (continued)

The Company has the option of adjusting the bonus and dividends payable to policyholders.

Sensitivity analyses produced below are based on the increase/decrease in risk-free rates or discount rates for the liabilities with regard to insurance contracts in 2022 or 2021 respectively (*Note*):

	Impact on 2022 loss before tax US$'000	Impact on 2021 profit before tax US$'000
Risk-free rates / Discount rates + 0.25%	200,234	412,685
Risk-free rates / Discount rates - 0.25%	(222,438)	(520,752)

Under HKRBC, the discount rates are derived based on risk-free yield curves, portfolio weighted average spread and parameters specified by the IA on a portfolio basis. The sensitivity analyses tested the impact upon shocks on risk-free yield curves.

Note: Under the previous valuation basis prior to HKRBC, the discount rates adopted are derived mainly based on the weighted average portfolio return, and depending on liability duration of the block i.e., *long, medium and short.*

Financial risks

The Company is exposed to certain different financial risks, including credit risk, liquidity risk, and market risk. The Company 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 summarises the Company's key risk exposures and the primary policies and processes used by the Company to manage its exposures to these risks.

(1) 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 Company's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Company 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 Company 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 Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(1) Credit risk (continued)

Management of the Company directs the Company'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 statements. The Company also monitors the recoverability of its reinsurance assets on an ongoing basis.

The table below provides information regarding the credit risk exposure of the Company at the end of the reporting period by classifying assets according to credit ratings of the counterparties.

31 December 2022

	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	BB US$'000	B US$'000	CCC US$'000	Not rated US$'000	Total US$'000
Financial assets									
Held-to-maturity financial assets	-	16,212	164,424	96,767	27,204	-	-	-	304,607
Available-for-sale financial assets	1,145,122	1,167,604	3,810,482	3,521,434	41,940	20,052	-	1,674,838	11,381,472
Financial assets at fair value through profit or loss	-	-	119,433	-	-	-	-	2,953,631	3,073,064
Loans and receivables	-	-	-	-	-	-	-	107,273	107,273
Derivative financial instruments	-	-	62,064	-	-	-	-	-	62,064
Deposits and other receivables	-	-	-	-	-	-	-	141,656	141,656
Insurance receivables	-	-	-	-	-	-	-	205,394	205,394
Due from immediate holding company	-	-	-	-	-	-	-	5	5
Due from subsidiaries	-	-	-	-	-	-	-	14,192	14,192
Due from fellow subsidiaries	-	-	-	-	-	-	-	348,803	348,803
Due from related companies	-	-	-	-	-	-	-	8,945	8,945
Cash and cash equivalents	-	-	186,789	(64)	39,079	-	-	1	225,805
Total assets	1,145,122	1,183,816	4,343,192	3,618,137	108,223	20,052	-	5,454,738	15,873,280

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(1) Credit risk (continued)

31 December 2021

	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	BB US$'000	B US$'000	CCC US$'000	Not rated US$'000	Total US$'000
Financial assets									
Held-to-maturity financial assets	-	53,054	227,451	89,794	27,363	-	-	-	397,662
Available-for-sale financial assets	1,670,878	1,208,467	4,362,834	3,796,769	57,352	7,818	3,340	1,534,982	12,642,440
Financial assets at fair value through profit or loss	-	-	62	-	-	-	-	3,074,311	3,074,373
Loans and receivables	-	-	82,329	-	-	-	-	94,548	176,877
Derivative financial instruments	-	-	22,229	-	-	-	-	453	22,682
Reinsurance assets	-	-	-	-	-	-	-	1,767,108	1,767,108
Deposits and other receivables	-	-	-	-	-	-	-	111,843	111,843
Insurance receivables	-	-	-	-	-	-	-	258,556	258,556
Due from immediate holding company	-	-	-	-	-	-	-	5	5
Due from subsidiaries	-	-	-	-	-	-	-	5,117	5,117
Due from fellow subsidiaries	-	-	-	-	-	-	-	118,465	118,465
Due from related companies	-	-	-	-	-	-	-	2,948	2,948
Cash and cash equivalents	-	13	304,152	49,899	-	-	-	1	354,065
Total assets	1,670,878	1,261,534	4,999,057	3,936,462	84,715	7,818	3,340	6,968,337	18,932,141

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(2) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Company 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 Company 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 Company 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 Company performs regular monitoring of its liquidity position through cash flow projections.

The table below summarises financial assets and liabilities of the Company into relevant maturity groupings based on the remaining period at the end of the reporting period to their contractual maturities or expected repayment dates.

31 December 2022

	Less than 1 year US$'000	1 to less than 3 years US$'000	3-5 years US$'000	Over 5 years US$'000	No term US$'000	Total US$'000
Financial assets						
Held-to-maturity financial assets	43,786	62,987	158,670	39,164	-	304,607
Available-for-sale financial assets	1,979,826	533,794	1,130,012	7,737,840	-	11,381,472
Financial assets at fair value through profit or loss	-	-	119,433	-	2,953,631	3,073,064
Loans and receivables	581	2,875	880	2,113	100,824	107,273
Derivative financial instruments	40,378	16,496	-	5,190	-	62,064
Deposits and other receivables	135,877	5,443	335	1	-	141,656
Insurance receivables	205,394	-	-	-	-	205,394
Due from immediate holding company	5	-	-	-	-	5
Due from subsidiaries	14,192	-	-	-	-	14,192
Due from fellow subsidiaries	348,803	-	-	-	-	348,803
Due from related companies	8,945	-	-	-	-	8,945
Other assets	-	-	-	-	-	-
Cash and cash equivalents	225,805	-	-	-	-	225,805
Total assets	3,003,592	621,595	1,409,330	7,784,308	3,054,455	15,873,280
Insurance contract liabilities	1,140,668	31,317	21,500	10,673,031	429,836	12,296,352
Investment contract liabilities	13,844	20,897	19,885	5,390	108,636	168,652
Reinsurance assets	116,419	(12,107)	274	(21,517)	-	83,069
Due to subsidiaries	238,808	-	-	-	-	238,808
Due to fellow subsidiaries	9,177	-	-	-	-	9,177
Due to related companies	31,827	-	-	-	-	31,827
Due to intermediate holding company	1,213	-	-	-	-	1,213
Financial liabilities						
Derivative financial instruments	11,359	214	132	6,384	-	18,089
Other payable and liabilities	643,129	-	-	-	-	643,129
Lease liabilities	15,559	21,192	17,113	-	-	53,864
Total liabilities	2,222,003	61,513	58,904	10,663,288	538,472	13,544,180

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(2) Liquidity risk (continued)

31 December 2021

	Less than 1 year US$'000	1 to less than 3 years US$'000	3-5 years US$'000	Over 5 years US$'000	No term US$'000	Total US$'000
Financial assets						
Held-to-maturity financial assets	91,909	83,317	68,977	153,459	-	397,662
Available-for-sale financial assets	458,928	547,860	1,374,050	8,863,735	1,397,867	12,642,440
Financial assets at fair value through profit or loss	-	-	-	-	3,074,374	3,074,374
Loans and receivables	351	2,439	347	86,026	87,714	176,877
Derivative financial instruments	7,260	7,057	6,400	1,513	452	22,682
Reinsurance assets	151,199	134,058	4,209	1,477,642	-	1,767,108
Deposits and other receivables	107,878	3,965	-	-	-	111,843
Insurance receivables	258,556	-	-	-	-	258,556
Due from immediate holding company	5	-	-	-	-	5
Due from subsidiaries	5,117	-	-	-	-	5,117
Due from fellow subsidiaries	118,465	-	-	-	-	118,465
Due from related companies	2,948	-	-	-	-	2,948
Other assets	-	-	-	-	-	-
Cash and cash equivalents	354,065	-	-	-	-	354,065
Total assets	1,556,681	778,696	1,453,983	10,582,375	4,560,407	18,932,142
Insurance contract liabilities	2,225,218	158,013	18,574	13,681,282	616,874	16,699,961
Investment contract liabilities	9,478	22,663	20,588	16,040	149,036	217,805
Due to subsidiaries	241,873	-	-	-	-	241,873
Due to fellow subsidiaries	2,564	-	-	-	-	2,564
Due to related companies	21,406	-	-	-	-	21,406
Due to immediate holding company	707	-	-	-	-	707
Financial liabilities						
Derivative financial instruments	6,061	16,476	-	9,363	-	31,900
Other payable and liabilities	371,209	-	-	-	-	371,209
Lease liabilities	1,070	14,510	9,357	30,697	-	55,634
Total liabilities	2,879,586	211,662	48,519	13,737,382	765,910	17,643,059

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(3) Market risk

(i) Currency risk

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which serves to mitigate the foreign currency exchange risk arising from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The level of currency risk the Company accepts is managed and monitored by the Asset and Liability Management Committee of the Company, through regular monitoring of currencies position of financial assets and insurance and investment contracts.

The Company'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 2022 and 2021.

At 31 December 2022, assets denominated in United States dollars and Hong Kong dollars accounted for 81% (2021: 73%) and 9% (2021: 17%) of the Company's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 69% (2021: 57%) and 29% (2021: 40%) of the Company's total liabilities respectively. The Company 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.

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(3) Market risk (continued)

(ii) Interest rate risk

The Company's exposure to interest rate risk predominantly arises from any difference between the tenor of the Company's liabilities and assets, or any difference between the return on investments and the return required to meet the Company's commitments, predominantly its traditional insurance liabilities. This exposure is heightened in products with inherent interest rate options or guarantees.

The Company 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 Company. 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 Company has no significant concentration of interest rate risk.

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

Currency	Change in variables	Impact on equity 31 December 2022 US$'000	Impact on equity 31 December 2021 US$'000
USD	+25 basis points	(442,946)	(267,154)
HKD	+25 basis points	(3,274)	(2,557)
JPY	+25 basis points	(4,462)	(3,446)
EUR	+25 basis points	(1,447)	(1,050)
USD	-25 basis points	483,343	272,669
HKD	-25 basis points	3,403	2,500
JPY	-25 basis points	1,545	3,605
EUR	-25 basis points	4,940	1,094

39. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(3) Market risk (continued)

(iii) Price risk

The Company's equity price 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 Company manages these risks by setting and monitoring investment limits in each country and sector.

The analysis below is performed for reasonably possible movements in Hang Seng Index with all other variables held constant, showing the impact on equity.

		Impact on equity	
	Change in variables	31 December 2022 US$'000	31 December 2021 US$'000
Hang Seng Index	+5%	68,711	67,041
Hang Seng Index	-5%	(68,711)	(67,041)

Capital Management

The Company's capital management objective is focused on maintaining a strong capital base to safeguard the Company's ability to continue as a going concern in view of its risk exposures, to support the development of the business, maximise shareholders' value and to ensure that the Company complies with regulatory capital requirements.

The Company determines its internal capital target with considerations of the regulatory capital requirements, the Company strategic planning and the capital buffer to maintain in view of the various risk exposures. Capital risk metrics and thresholds are established within the Company risk appetite, by which the risk ratings on the Company solvency is regularly assessed. The risk ratings are reported in the risk dashboard delivered to the board and senior executives. Sensitivity testing on current and projected capital position under adverse scenarios are performed annually and oversight by the board and senior executives.

The Company complied with all regulatory capital requirements during the year. The Company's insurance regulator is the Insurance Authority (the "IA") which requires that the Company determine the Prescribed Capital Requirement ("PCR") under HKRBC, which supersedes the prior regulatory capital requirements by the Insurance Ordinance (the "Ordinance") upon early adoption of HKRBC. The IA requires the Company to maintain an excess of assets over liabilities of not less than the required PCR level which is 100 per cent of overall PCR. On top of the PCR, the Company is required to maintain an additional buffer of 50 per cent of PCR under early adoption of HKRBC, and may be subject to more intense supervisory monitoring if the excess of assets over liabilities is less than 150 per cent of PCR. The Company complied with all the regulatory capital requirements throughout both years 2022 and 2021.

The required margin of solvency is determined by the Company's appointed actuary who lead the actuarial function. The actuarial function plays a key role in capital management in addition to its ordinary function of actuarial valuations, pricing and asset & liability management.

40. HONG KONG RISK BASED CAPITAL

The IA has introduced HKRBC to the Hong Kong insurance industry, which supersedes the prior regulatory capital requirements under the Ordinance Cap. 41. The Company has obtained approval from the IA to early adopt HKRBC with effect from 30 June 2022.

In order to achieve the HKRBC objective of reflecting all risk factors that are reasonably foreseeable and relevant to insurers' operations, HKRBC adopts a total balance sheet approach, in which assets and liabilities are valuated consistently on an economic basis.

As a result, the HKRBC balance sheet is different from the Company's statement of financial position prepared in accordance with the HKFRSs. This note is created to present the balance sheet and income statement prepared in accordance with HKRBC, and to reconcile the difference between them and the financial statement of financial position and the statement of profit or loss and other comprehensive income.

INCOME STATEMENT PREPARED IN ACCORDANCE WITH HKRBC

Year ended 31 December 2022

	2022 US$'000
REVENUE	
Gross premiums	2,678,246
Reinsurers' share of gross premium	(160,330)
Net premiums	2,517,916
OTHER REVENUE	
Investment returns	
Investment income	494,546
Net realized losses on financial assets	(38,628)
Net fair value losses on financial assets	(417,159)
Commission income	13,870
Other income	36,622
	89,251
TOTAL REVENUE	2,607,167
BENEFITS AND CLAIMS	
Gross benefits and claims paid	(1,138,991)
Reinsurers' share of gross benefits and claims paid	129,663
	(1,009,328)
OTHER EXPENSES	
Dividends to policyholders	(107,665)
Commission expenses	(307,592)
Investment management expense	(21,107)
Other operating and administrative expenses	(279,276)
	(715,640)
CHANGE IN INSURANCE CONTRACT LIABILITIES	
Gross change in contract liabilities	3,293,914
Reinsurers' share of gross change in contract liabilities	(665,871)
	2,628,043
TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES	903,075
PROFIT BEFORE TAX	3,510,242
INCOME TAX	(559,902)
PROFIT FOR THE YEAR	2,950,340

BALANCE SHEET PREPARED IN ACCORDANCE WITH HKRBC

Year ended 31 December 2022

	2022 US$'000
Assets	
Intangible assets	978
Cash and bank balances	235,509
Available-for-sale financial assets	11,672,861
Financial assets at fair value through profit or loss	3,073,064
Derivative financial instruments	62,064
Investment property	10,645
Loans and advances	104,652
Investment in subsidiaries and affiliates	953,890
Reinsurance assets	318,526
Insurance receivables	229,685
Investment receivables	123,294
Property, plant and equipment	14,456
Right-of-use assets	54,234
Due from an immediate holding company	5
Due from subsidiaries	138
Due from fellow subsidiaries	348,803
Due from related companies	9,055
Prepayments, deposits and other receivables	30,411
TOTAL ASSETS	17,242,270
Liabilities	
Insurance contract liabilities	12,515,858
Reinsurance liabilities	412,654
Derivative financial instruments	18,089
Repurchase agreements	396,014
Due to an immediate holding company	1,731
Due to intermediate holding companies	1,218
Due to subsidiaries	3
Due to fellow subsidiaries	9,183
Due to related companies	31,836
Other payables and accrued liabilities	205,763
Lease liabilities	53,864
Current tax liabilities	72,151
Deferred tax liabilities	173,317
Total liabilities	13,891,681

BALANCE SHEET PREPARED IN ACCORDANCE WITH HKRBC (continued)

Year ended 31 December 2022

	2022 US$'000
Equity	
Issued capital	1,784,143
Retained earnings	3,221,303
Available-for-sale financial assets revaluation reserve	(1,637,184)
Cash flow hedge reserve	(16,036)
Share option reserve	13,408
Other reserve	(15,045)
Total equity	3,350,589
TOTAL LIABILITIES AND EQUITY	17,242,270

Reconciliation between HKFRS and HKRBC basis

	Note	2022 US$'000
Net assets under HKFRS, as at 31 December 2022		3,376,672
Financial assets re-measured at fair value, net of tax	i	(11,037)
Net asset from consolidated non-regulated subsidiaries	ii	(15,046)
Net assets under HKRBC, as at 31 December 2022		3,350,589

Note:

i) Assets under HKRBC should be measured at fair value in accordance with the Early Adoption Technical Specifications issued by the IA. Certain financial assets measured at cost are reclassified to available-for-sales and measured at fair value. The change in net assets under HKRBC reflects the fair value remeasurement, net of tax.

ii) While HKRBC is only applied to the Company, according to the Early Adoption Technical Specifications issued by the IA, the balance sheet of its non-regulated subsidiaries are required to be looked through into the Company's balance sheet under HKRBC's total balance sheet approach in order to reflect the all the underlying risk factors. The Company should consolidate each balance sheet item of its subsidiaries on a line-by-line basis into the Company's balance sheet at HKRBC basis. The change in net asset reflects the aggregated net assets of the non-regulated subsidiaries.

41. EVENTS AFTER REPORTING PERIOD

There have been no events subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2023.