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FWD insurance

**FWD GROUP LIMITED**

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

**("FGL")**

**U.S.$750,000,000 Zero Coupon Subordinated Perpetual Capital Securities (comprising the U.S.$500,000,000 Zero Coupon Subordinated Perpetual Capital Securities consolidated and forming a single series with the U.S.$250,000,000 Zero Coupon Subordinated Perpetual Capital Securities) (the "June 2017 Perpetual Securities") (ISIN: XS1628340538) (Stock Code: 5221)**

**U.S.$900,000,000 5.75 per cent. Subordinated Notes due 2024 (comprising the U.S.$550,000,000 5.75 per cent. Subordinated Notes due 2024 and the U.S.$250,000,000 5.75 per cent. Subordinated Notes due 2024 consolidated and forming a single series with the U.S.$100,000,000 5.75 per cent. Subordinated Notes due 2024) (the "2024 Notes") (ISIN: XS2022434364) (Stock Code: 4403)**

**U.S.$600,000,000 6.375 per cent. Capital Securities (the "2019 Perpetual Securities", and together with the June 2017 Perpetual Securities and the 2024 Notes, the "Securities" and each a "Series") (ISIN: XS2038876558) (Stock Code: 5793)**

## CONSENT SOLICITATION – UPDATE AND PUBLICATION OF FIRST QUARTER NEW BUSINESS HIGHLIGHTS FOR THE THREE MONTHS ENDED 31 MARCH 2023, IMPACT OF IFRS 17 AND OTHER INFORMATION OF FWD GROUP HOLDINGS LIMITED

### BACKGROUND

Reference is made to (i) the announcement dated 17 June 2021 in relation to FGL's solicitation of consents for approval of the Proposals set out in the consent solicitation memorandum dated 17 June 2021 (the "**Consent Solicitation Memorandum**") by an Extraordinary Resolution, by way of Circulating Resolution by Electronic Consent or, where the Extraordinary Resolution has not been approved by Electronic Consent, at a Meeting, (ii) the announcement dated 1 July 2021 in relation to the results as at the Electronic Consent Deadline in respect of the Securities, and (iii) the announcements dated 28 February 2022, 14 September 2022 and 28 February 2023 in relation to certain updates to the Consent Solicitation and other information of FWD Group Holdings Limited ("**FGHL**", and together with its subsidiaries, the "**Group**") (together, the "**Announcements**"). The Consent Solicitation Memorandum has been made available via the Consent Website to Holders in connection with the Consent Solicitation. **Holders should refer to the relevant Notice and the Consent Solicitation Memorandum for details of the Consent Solicitation**.

Unless the contrary is stated, or the context otherwise requires, terms and expressions defined in the Announcements and the Consent Solicitation Memorandum shall have the same meanings when used in this announcement.

### UPDATE ON THE CONSENT SOLICITATION

On the Settlement Date, subject to and in accordance with the terms and conditions of the Consent Solicitation Memorandum (including any Issuer Election), the Issuer will pay the relevant Consent Fee in respect of the June 2017 Perpetual Securities, the 2024 Notes and the 2019 Perpetual Securities to each Holder from whom a valid Voting Instruction in favour of the relevant Extraordinary Resolution had been received by the Information and Tabulation Agent by the relevant consent deadline as described in the Consent Solicitation Memorandum. If the Proposals are implemented in full, our parent company, FGHL, will be substituted as the issuer in respect of the Securities.

As specified in the Consent Solicitation Memorandum, satisfaction of the Settlement Conditions is one of the conditions to the (a) execution of the relevant Deeds of Novation to implement the relevant Proposals and (b) payment of any Consent Fees pursuant to the Consent Solicitation. The Settlement Conditions comprise of the Regulatory Condition, the Equity Raise Condition, the Ratings Condition and the Lender Consent Requirement.

Through a series of equity private placements conducted in late 2021 and during 2022 to certain global investors including Apollo, the Canada Pension Plan Investment Board, Li Ka Shing Foundation, Metro Pacific Investments Corporation, Pacific Century Group, The Siam Commercial Bank Public Company Limited ("**SCB**"), Swiss RE, Huatai Growth Focus Limited and Orix Asia Capital Limited, FGHL has raised a total of US$1.825 billion.

We will continue to take active steps towards satisfaction of all the Settlement Conditions and will provide a further update in due course with respect to expected timing for satisfaction of the Settlement Conditions.

### FINANCIAL UPDATE

On 6 June 2023, the Group published a press release entitled "*FWD Group announces update to bond consent solicitation and publication of first quarter new business highlights*" with respect to an update on our Consent Solicitation and its financial performance for the three months ended 31 March 2023 (the "**Press Release**") which is available on its corporate website at https://www.fwd.com.

The Group's Annualised Premium Equivalent ("**APE**") increased by 11.3% on a constant exchange rate ("**CER**") basis (7.4% on an actual exchange rate ("**AER**") basis) from US$405 million in the three months ended 31 March 2022 to US$435 million in the three months ended 31 March 2023. The increase was primarily driven by strong growth in Thailand (and Cambodia) and Emerging Markets, as we continued to deliver on distribution partnerships. This growth was partially offset by the decline in (i) Hong Kong (and Macau), due to a large one-off group policy written in the three months ended 31 March 2022 that did not reoccur, and (ii) Japan, due to declining Corporate Owned Life Insurance ("**COLI**") sales and increasing competition in the individual protection product segment.

The Group's Value of New Business ("**VNB**") increased by 34.9% on a CER basis (29.3% on an AER basis) from US$191 million in the three months ended 31 March 2022 to US$247 million in the three months ended 31 March 2023 due to the following factors:

- Hong Kong: strong recovery of the offshore business as borders reopened with Mainland China in January
- Thailand: sustained sales of high margin business through SCB and a strong pick-up in the agency channel
- Japan: continued decline in the COLI business partially offset by increase in individual protection business
- Emerging Markets: strong growth of new business across all markets as we continued creating value by focusing on protection and higher-margin products

Accordingly, the Group's new business margin (% of APE) improved from 47.1% in the three months ended 31 March 2022 to 56.7% in the three months ended 31 March 2023. The following table presents the APE, VNB and new business margin (% of APE) achieved for the periods indicated:

| | **Three months ended 31 March** | | **YoY Change** | |
|---|---|---|---|---|
| | **2022** | **2023** | **CER** | **AER** |
| APE | 405 | 435 | 11.3% | 7.4% |
| VNB | 191 | 247 | 34.9% | 29.3% |
| *New business margin (% of APE)* | *47.1%* | *56.7%* | | |

### *Impact of IFRS 17*

IFRS 17 Insurance Contracts has replaced IFRS 4 Insurance Contracts, and will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Group's consolidated financial statements.

Under IFRS 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 Group expects to use all three measurement model approaches given the variety of insurance products sold and the number of jurisdictions in which the Group operates in.

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 IFRS 17.

Insurance revenue is no longer measured by premium, but recognised by the provision of services to policyholders throughout the term of the insurance contracts. Additionally, IFRS 17 has introduced 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 IFRS 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, IFRS 17 requires using either the modified retrospective approach that allows certain specific modifications, or the fair value approach. The Group expects to make use of all three transition approaches given the varying length of history of the in-force business.

IFRS 17 requires significant changes to the accounting policies for insurance contract liabilities, and also requires enhancements to the IT, finance and actuarial systems of the Group, and a Group-wide project is in progress to implement the new standard. The Group has been assessing the implications of IFRS 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 IFRS 17. The Group 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 IFRS 17.

Based on the Group's preliminary financial impact analysis, total equity in the opening statement of financial position as at 1 January 2022 is estimated to be between US$8.9 billion to US$9.0 billion under IFRS 17 as compared to US$8.9 billion under IFRS 4, while adjusted total equity attributable to shareholders of FGHL (non-IFRS measure), i.e., assuming the reorganisation (as described in the notes to the financial statements for the year ended 31 December 2022, the “**Reorganisation**”) was completed as of 1 January 2020, is estimated to be between US$7.3 billion to US$7.4 billion under IFRS 17 as compared to US$7.3 billion under IFRS 4. The adjusted total equity attributable to shareholders of FGHL (non-IFRS measure) excludes certain balances attributable to the conditional reorganisation steps as described in the notes to the financial statements for the year ended 31 December 2022.

Included in the measurement of insurance contract liabilities is the establishment of a Contractual Service Margin (“**CSM**”) representing the estimated future unearned profits on in-force business. CSM after deduction of (i) CSM attributable to reinsurance contract held, and (ii) taxes which are calculated by applying local statutory tax rates to CSM after allowing for reinsurance (“**Net CSM**”) is estimated to be between US$3.9 billion to US$4.3 billion as at 1 January 2022. Total comprehensive equity (non-IFRS measure), defined as adjusted total equity attributable to the shareholders of FGHL (non-IFRS measure) plus Net CSM, which became one of the key performance indicators reviewed by the Group's executive committee following the adoption of IFRS 17, is estimated to be between US$11.2 billion to US$11.7 billion.

The opening IFRS 17 consolidated statement of financial position, opening adjusted total equity attributable to shareholders of FGHL (non-IFRS measure) and estimated adjustments between IFRS 4 to IFRS 17 as at 1 January 2022 are presented below:

| US$ billion | Consolidated Statement of Financial Position | | | Adjusted total equity attributable to shareholders of FGHL (non-IFRS measure) | | |
|---|---|---|---|---|---|---|
| | As reported IFRS 4 IAS 39 31 December 2021 | IFRS9/ IFRS17 impact | Restated IFRS 17 IFRS 9 1 January 2022 | IFRS 4 IAS 39 31 December 2021 | IFRS9/ IFRS17 impact | Restated IFRS 17 IFRS 9 1 January 2022 |
| Financial investments | 47.3 | (0.8) | 46.5 | 47.3 | (0.8) | 46.6 |
| Insurance and reinsurance assets | 8.1 | (6.0) | 2.1 | 8.1 | (6.0) | 2.1 |
| Other assets | 8.2 | (0.4) | 7.8 | 8.2 | (0.4) | 7.8 |
| Total assets | 63.6 | (7.2) | 56.4 | 63.6 | (7.2) | 56.4 |
| Insurance, investment and reinsurance contract liabilities | 49.2 | (6.1) | 43.1 | 49.2 | (6.1) | 43.1 |
| Other liabilities | 5.5 | (1.2) | 4.3 | 5.5 | (1.2) | 4.3 |
| Total liabilities | 54.7 | (7.3) | 47.4 | 54.7 | (7.3) | 47.4 |
| Share capital, share premium and other reserves | 6.1 | 0.1 | 6.2 | 8.6 | 0.1 | 8.7 |
| Retained earnings/(accumulated losses) | (0.3) | 0.3 | 0.0 | (1.0) | 0.4 | (0.6) |
| Amounts reflected in other comprehensive income | (0.2) | (0.3) | (0.5) | (0.3) | (0.4) | (0.7) |
| Total equity attributable to Shareholders of FGHL | 5.6 | 0.1 | 5.7 | 7.3 | 0.1 | 7.4 |
| Perpetual securities | 1.6 | - | 1.6 | 1.6 | - | 1.6 |
| Non-controlling interests | 1.7 | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 |
| Total equity | 8.9 | 0.1 | 9.0 | 8.9 | 0.1 | 9.0 |

The Group's Leverage Ratio at 31 December 2021 under the approach adopted under IFRS 17[1] is estimated at 25.0% from 34.1% under IFRS 4.[2]

The marginal increase in equity at 1 January 2022, is a result of applying the discount rates under IFRS 17 offset by the establishment of the CSM and a risk adjustment.

Further, IFRS 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, IFRS 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.

[1] Calculated as debt divided by total comprehensive equity (using midpoint of comprehensive equity) and debt.
[2] Calculated as debt divided by the sum of debt and shareholders' allocated equity.

In particular, the Hong Kong operating segment will be expected to have lower volatility in net profit as a result of a substantial proportion of the insurance contracts being classified under the variable fee approach. Further, all operating segments will have lower volatility in total equity as a result of discounted cash flows reflecting current estimates of discount rates as opposed to using locked-in discount rates under IFRS 4.

Based on the Group's preliminary financial impact analysis, the restatement of the full year 2022 results due to the retrospective adoption of IFRS 17 is estimated to be a reduction in net loss to between US$450 million to US$250 million from US$740 million under IFRS 4, and an improvement in segmental adjusted operating profit before tax (non-IFRS measure), to between US$350 million to US$450 million from US$334 million under IFRS 4. As at year ended 31 December 2022, the total equity is estimated to increase to be between US$8.4 billion to US$8.7 billion from US$3.7 billion under IFRS 4, while adjusted total equity attributable to shareholders of FGHL (non-IFRS measure) is estimated to be between US$6.9 billion to US$7.3 billion. Further, the Net CSM at 31 December 2022, is estimated to increase to between US$4.1 billion to US$4.5 billion and total comprehensive equity (non-IFRS measure) is estimated to be between US$11.0 billion to US$11.8 billion. Net CSM contributed from new business sold during 2022 is estimated to be between US$1.0 billion to US$1.5 billion. The Group’s Leverage Ratio at 31 December 2022 under IFRS 17[3] is estimated at 23.8% from 34.6% under IFRS 4.[4] The Group’s financial statements for the financial period beginning on and after 1 January 2023 (which includes the 2023 interim financial report for the six months period ended 30 June 2023) will be prepared in accordance with IFRS 9 and 17.

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[3] Calculated as debt divided by total comprehensive equity (using midpoint of comprehensive equity) and debt.

[4] Calculated as debt divided by the sum of debt and shareholders’ allocated equity.

## FURTHER DETAILS

**Holders should refer to the relevant Notice and the Consent Solicitation Memorandum for details of the Consent Solicitation.** The Consent Solicitation Memorandum, the Notices as well as other relevant documents, can be accessed, subject to eligibility and registration, via the Consent Website: https://bonds.morrowsodali.com/fwd.

Separately, Holders who need assistance may contact the Information and Tabulation Agent at the following contact details:

**Morrow Sodali Ltd.**

*In London*:
103 Wigmore Street
London W1U 1QS
Telephone: +44 20 4513 6933

*In Hong Kong*:
The Hive, 33-35 Hillier Street
Sheung Wan, Hong Kong
Telephone: + 852 2319 4130

Email: fwd@investor.morrowsodali.com
Consent Website: https://bonds.morrowsodali.com/fwd

Holders with queries on the Consent Solicitation should contact the Solicitation Agent at the following details:

**The Hongkong and Shanghai Banking Corporation Limited**
Level 17, HSBC Main Building
1 Queen's Road Central

Telephone: +852 3941 0223 (Hong Kong) / +44 20 7992 6237 (London)
Email: liability.management@hsbcib.com

6 June 2023

*As at the date of this announcement, the Directors of the Issuer are Ma Si Hang, Frederick, Damis Jacobus Ziengs, Li Tzar Kai Richard, Peter Anthony Allen, John Russell Baird, Chung Martina Kit Hung, John Robert Dacey, Kyoko Hattori, Dirk Marinus Sluimers and Huynh Thanh Phong.*