Report of the Independent Expert on the Proposed Schemes to Transfer Long Term Business/Life Policies from Chubb Life Insurance Company Ltd. to Chubb Life Insurance Hong Kong Limited

25 July 2023

wtwco.com

25 July, 2023

Chubb Life Insurance Company Ltd. and Chubb Life Insurance Hong
Kong Limited
35/F, Chubb Tower, Windsor House
311 Gloucester Road, Causeway Bay
Hong Kong

Dear Sir or Madam,

I enclose my report on the Proposed Schemes for the transfer of the Long Term Business of Chubb Life Insurance Company Ltd. to Chubb Life Insurance Hong Kong Limited under section 24 of the Hong Kong Insurance Ordinance and section 25 of the Bermuda Insurance Act. My work has been conducted in accordance with the Scope of Work of the Independent Actuary set out under Appendix E of the Report.

I draw your attention to the reliances and limitations set out in Section 10.

I am available to provide further information relating to the matters discussed in this document as required.

Yours sincerely

Cindy Chou
FSA, MAAA

90 Pitt's Bay Road
Pembroke HM08 Bermuda

T +1 441 278 0500
www.wtwco.com
Towers Watson (Bermuda) Ltd. Registration No. 8055

Disclaimer

Purpose

This disclaimer uses the terms defined in the other sections of this Report.

This Report has been prepared in accordance with the Statement of Work and for that purpose. This document is not intended nor necessarily suitable for any other purposes. It must be considered in its entirety. Neither I nor WTW owe or accept any duty to any other party and shall not be liable to any other party who relies on this Report nor for the use of this Report for a purpose for which it was not intended.

The Statement of Work for this Report has been agreed by the Companies and seen by the Regulators.

Distribution and Use

A copy of this Report and/or a summary of this Report (with this disclaimer and approved by myself before it is issued) sufficient to indicate my opinion on the likely effects of the Proposed Schemes on the Transferring Policyholders and the Chubb Life HK Policyholders, ("a Report Summary") may be provided to the following parties:

- the members of the Companies and to other companies within the Chubb Group;
- the Regulators, for the purpose of complying with their statutory obligations;
- the Courts, to assist in determining whether the Proposed Schemes should be sanctioned; and
- any other person who has or asserts a right to receive a copy of this Report under the Insurance Ordinance or the Insurance Act including, without limitation, Transferring Policyholders and Chubb Life HK Policyholders.

A copy of this Report and/or a Report Summary (approved by me) may also be provided to:

- legal advisers to the Companies;
- auditors of the Companies; and
- tax advisers of the Companies,

provided that the Companies inform them (i) that this Report may not, save as set out above, be disclosed to any other party without my prior written consent and (ii) neither I nor WTW accept any responsibility or liability to them in respect of any use they may make of this Report.

Draft versions of this Report or a Report Summary must not be relied upon by any person for any purpose.

A copy of this Report and/or a Report Summary may be published on the websites of the Companies and made available for inspection at the Companies' offices in Hong Kong.

90 Pitt's Bay Road
Pembroke HM08 Bermuda

T +1 441 278 0500
www.wtwco.com
Towers Watson (Bermuda) Ltd. Registration No. 8055

Table of Contents

This page is intentionally blank

Section 1: Independent Actuary's Statement of Opinion

I, Cindy Chou, am associated with the firm of Willis Towers Watson US LLC ("WTW"). I am a Fellow of the Society of Actuaries, and a Member of the American Academy of Actuaries. I have been appointed to act as the Independent Actuary pursuant to section 24 of the Hong Kong Insurance Ordinance Chapter 41 (the "Insurance Ordinance" or "HKIO"), to provide an independent opinion on the terms and likely effects of the proposed transfer of all long term insurance business ("the Transferring Business") and the policies ("the Transferring Policies") written by Chubb Life Insurance Company Ltd. ("CLICL") through its Hong Kong branch to Chubb Life Insurance Hong Kong Limited ("Chubb Life HK") (formerly known as Cigna Worldwide Life Insurance Company Limited). This transfer ("Transfer") is intended to be effected as a scheme of transfer ("the Hong Kong Scheme") under Hong Kong law pursuant to section 24 of the Insurance Ordinance and a scheme of transfer (the "Bermuda Scheme") under section 25 of the Insurance Act 1978 of Bermuda (the "Insurance Act"). The Hong Kong Scheme and the Bermuda Scheme together are the "Proposed Schemes".

The Transferring Policies refer to (i) all long term business insurance policies underwritten by CLICL in or from Hong Kong under which any liability remains outstanding as at the transfer date, whether such insurance policies have been reinstated, or have expired, lapsed, matured, surrendered, terminated or otherwise, including all proposals, applications, certificates, supplemental coverages, endorsements, riders and ancillary agreements in connection therewith; and (ii) all proposals and applications for policy renewals and reinstatements received by CLICL but the processing of which has not been completed prior to the transfer date (which shall be processed by Chubb Life HK after the transfer date).

Throughout this report ("Report"), CLICL and Chubb Life HK are collectively referred to as the "Companies"; the Transferring Policies and Transferring Business are referred to as the "Transferring Portfolio", the existing policyholders of Chubb Life HK are referred to as the "Chubb Life HK Policyholders". Policyholders of the Transferring Policies are referred to as "Transferring Policyholders".

Under the Proposed Schemes, CLICL proposes to transfer all of its assets and liabilities to Chubb Life HK with the intention of applying to the HKIA to be de-authorized as an authorized insurer in Hong Kong and to the BMA to surrender its Class E long term business licence.

In forming my opinion, I have been given free access to available information, reports and documents that I considered necessary and requested. In addition, I have also been given free access to the representatives of the Companies.

The scope of my review and opinions are confined to the effects of the Scheme on the policyholders of the Companies. There will be no remaining policyholders in the CLICL once the Scheme is implemented. In particular, I have formed my view by considering:

- the effect of the Proposed Schemes on the contractual benefits of the Transferring Policyholders and Chubb Life HK Policyholders;

- the effects of the Proposed Schemes on the reasonable benefit expectations of the Transferring Policyholders and the Chubb Life HK Policyholders;
- the effects of the Proposed Schemes on the financial security of the Transferring Policyholders and the Chubb Life HK Policyholders; and
- the expected level of service for the Transferring Policyholders or the Chubb Life HK Policyholders.

The scope of my work does not include assessing the impact of the Proposed Schemes on the shareholders of the Companies. I have considered the Proposed Schemes as presented to me and have not considered any other alternative schemes.

In my opinion,

- the Proposed Schemes will not adversely affect the contractual benefits or rights of the Transferring Policyholders or the Chubb Life HK Policyholders in any respect;
- the Proposed Schemes will not adversely affect the reasonable benefit expectations of the Transferring Policyholders or Chubb Life HK Policyholders in any respect;
- the Proposed Schemes will not adversely affect the financial security of the Transferring Policyholders' benefits or the Chubb Life HK Policyholders in any respect; and
- the Proposed Schemes will not adversely affect the expected levels of service for the Transferring Policyholders or the Chubb Life HK Policyholders in any respect.
- I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Section 2: Executive Summary

Introduction

2.1 Chubb Life Insurance Company Ltd. ("CLICL") proposes to transfer all of its long term insurance policies written by its Hong Kong branch (“the Transferring Policies”) and all of its assets and liabilities to Chubb Life Insurance Hong Kong Limited (“Chubb Life HK”, and jointly with CLICL as the “Companies”). This transfer (“Transfer”) is intended to be effected as a scheme of transfer (“the Hong Kong Scheme”) under Hong Kong law pursuant to section 24 of the Insurance Ordinance, Chapter 41 (the “Insurance Ordinance” or “HKIO”) and a scheme of transfer (the “Bermuda Scheme”) under section 25 of the Insurance Act 1978 of Bermuda (the “Insurance Act”). The Hong Kong Scheme and the Bermuda Scheme together are the proposed schemes (“Proposed Schemes”).

2.2 Under section 24 of the Insurance Ordinance, the Companies may apply to the Court of First Instance of the High Court of Hong Kong (“Hong Kong Court”) by petition for an order sanctioning the Hong Kong Scheme and that petition must be accompanied by a report on the terms of the Hong Kong Scheme prepared by an independent actuary (“Independent Actuary”) on the likely effects of the Hong Kong Scheme on the policyholders of the insurers concerned.

2.3 Under section 25 of the Insurance Act, the Companies may apply to the Bermuda Court by petition for an order sanctioning the Bermuda Scheme and that petition must be accompanied by a report on the Bermuda Scheme prepared by an approved actuary (“Approved Actuary”).

2.4 I have been appointed by Companies as the Independent Actuary and the Approved Actuary (I refer to this dual appointment of me being the “Independent Expert”).

2.5 The scope of the work of my engagement as the Independent Actuary in relation to the Schemes are set out under Appendix E.

Outline and Purpose of the Proposed Schemes

2.6 CLICL was incorporated in Bermuda on 28 July 1976 and was registered in Hong Kong as a non-Hong Kong company for the purposes of Part 11 of the former Companies Ordinance (Chapter 32 of the Laws of Hong Kong), now Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), on 31 August 1984.

2.7 On 7 October 2021, Chubb announced its acquisition of the accident & health and life businesses of CIGNA in Korea, Taiwan, New Zealand, Thailand, Indonesia and Hong Kong. This transaction closed on 1 July 2022. As part of that acquisition, Chubb International Investments Limited, a subsidiary of Chubb Limited that is the ultimate parent company of the Chubb group of companies (“Chubb Group”), purchased the entire issued share capital of CIGNA Worldwide Life Insurance Company Limited (which subsequently changed its name to Chubb Life Insurance Hong Kong Limited) (the “Acquisition”).

2.8 Chubb Life HK (then known as CIGNA Worldwide HK Life Company Limited and subsequently changing its name to CIGNA Worldwide Life Insurance Company Limited) was incorporated under the Laws of Hong Kong on 19 July 2005.

2.9 Upon completion of the Acquisition, CLICL and Chubb Life HK entered into the Policy Administration Agreement (also known as the Group Services Agreement) pursuant to which Chubb Life HK outsourced the administration of its long term insurance policies to CLICL for this to be carried out in parallel with administration of CLICL’s own long term business.

2.10 CLICL is subject to the supervision of the Bermuda Monetary Authority (the "BMA") pursuant to the Insurance Act and the Hong Kong Insurance Authority (the "HKIA") pursuant to the Insurance Ordinance. As certain Transferring Policies also constitute investment-linked assurance schemes under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), the change in the issuer of those Transferring Policies also requires the approval of the Securities and Futures Commission in Hong Kong (the "SFC", jointly with the HKIA and the BMA the "Regulators").

2.11 The Companies propose to make an application to the Hong Kong Court to transfer CLICL's long term business ("CLICL's Long Term Business") carried out in Hong Kong from CLICL to Chubb Life HK according to the terms of the Hong Kong Scheme and to the Supreme Court of Bermuda ("the Bermuda Court") to transfer CLICL's long term business from CLICL to Chubb Life HK according to the terms of the Bermuda Scheme which are in all material respects the same as the Hong Kong Scheme.

2.12 Under the Proposed Schemes, CLICL proposes to transfer all of its assets and liabilities to Chubb Life HK with the intention of applying to the HKIA to be de-authorized as an authorized insurer in Hong Kong and to the BMA to surrender its Class E long term business licence. After the Transfer, CLICL and Chubb Life HK intend to terminate the Policy Administration Agreement and for Chubb Life HK to offer to employ the CLICL employees who have been administering the Transferring Policies at CLICL so that the same employees will continue to be service the Transferring Policies.

2.13 CLICL and Chubb Life HK consider that the benefits of the Proposed Transfer will, subject to it becoming effective, include:

1. by combining CLICL's Long Term Business with Chubb Life HK's Long Term Business:
   i. avoiding duplication of insurance products, management, administration, servicing and cybersecurity monitoring of separate IT systems; and
   ii. improving the efficiency of policy servicing, accounting, audit, regulatory and actuarial compliance;

2. by removing the need for the Chubb Group to maintain two authorized insurers in Hong Kong:
   i. simplifying Chubb Group's corporate structure in Hong Kong;
   ii. achieving regulatory alignment and streamlining regulatory compliance by focussing this in Hong Kong (as Chubb Group's Long Term Business in Hong Kong will be subject to the Hong Kong regulatory regime alone and not to Bermuda regulatory requirements that currently apply with respect to CLICL as a company incorporated in Bermuda even though CLICL does not carry on the CLICL Business from Bermuda) thereby removing the additional resource burden in managing different risk profiles and regulatory regimes;
   iii. avoiding duplication of risk management assessments including carrying out Own Risk and Solvency Assessments for both CLICL and Chubb Life HK; and
   iv. creating greater synergies between Chubb Group companies in Hong Kong; and

3. enabling simpler, clearer and more transparent communications:
   i. with Transferring Policyholders, by removing any confusion arising out of the Chubb Group having two different authorized insurers carrying on Long Term Business in Hong Kong; and
   ii. with Chubb Life HK Policyholders as their Policies will be both held and administered by Chubb Life HK rather than held by Chubb Life HK and administered by CLICL under the Policy Administration Agreement; and

4. facilitating Chubb Group' strategic plans for Chubb Life HK, as a company incorporated in Hong Kong, to take advantage of the Hong Kong Government's efforts to enable authorized insurers to expand their Long Term Business into the Greater Bay Area.

2.14 The intended effective date of the Proposed Schemes is at 12:00 a.m. Hong Kong Standard Time on 1 December 2023 or on such date mutually agreed by CLICL and Chubb Life HK (being a date within 90 days after the date on which the Hong Kong Court makes an order (the "Hong Kong Order")) sanctioning the Hong Kong Scheme (the "Effective Date") and subject to the Bermuda Court making an order (the "Bermuda Order", together with the Hong Kong Order the "Court Orders") sanctioning the Bermuda Scheme.

Purpose of this Report

2.15 The purpose of this report ("this Report") is to provide my opinion on the likely effects of the Hong Kong Scheme and the Bermuda Scheme on the policyholders of CLICL (the Transferring Policyholders) and the policyholders of Chubb Life HK (the "Chubb Life HK Policyholders") as required by section 24 of the Insurance Ordinance and as required by section 25 of the Insurance Act respectively.

2.16 The Transfer will not become effective until all regulatory approvals and Court Orders are obtained and until the Effective Date.

2.17 This Report is provided for the Companies and the Courts for the sole purpose of considering the impact of the Proposed Schemes on the affected policyholders of the Companies and is not necessarily suitable for any other purpose.

Role of the Independent Actuary and Appointed Actuary

2.18 I, Cindy Chou, have been appointed by the Companies to provide an Independent Actuary report for the Hong Kong Scheme and an Approved Actuary report for the Bermuda Scheme. My appointment as the Approved Actuary in connection with the Bermuda Scheme was approved by the BMA on 2 September 2022. My appointment as Independent Actuary was notified to the HKIA on 6 December 2022. This Report will be presented to the Courts at hearings in Hong Kong and Bermuda and will be considered by the Courts in deciding whether to sanction the Proposed Schemes.

2.19 I have 18 years of experience in life insurance in US and Asia combined. I am a Fellow of the Society of Actuaries and a Director with the Insurance Consulting and Technology business of an affiliate of WTW. I have Master of Commerce (Actuarial Science) from the Macquarie University, Australia, and Master of Finance from the Boston University, U.S.A. I am in full compliance with the Continuing Professional Development requirements promulgated by the Society of Actuaries.

2.20 In conducting this work, I have been supported by a team of WTW colleagues that includes other qualified and experienced actuaries.

2.21 Under the Proposed Schemes, CLICL will bear the cost and expenses related to my appointment as the Independent Expert, and the cost of implementation will be borne by Chubb Life HK. This includes but not limited to costs associated with preparation of the Schemes, obtaining Courts' sanctions, and other expenses associated with the Transfer, both incurred before and after the transfer date. The cost will be expensed through Chubb Life HK and met by Chubb Life HK's Shareholders' fund. The total costs and expenses incurred are estimated to be USD 1 million.

Scope of this Report and Overall Approach

2.22 The scope of my review is limited to assessing, and providing opinions on, the likely impact of the Proposed Schemes on the contractual benefits and other rights, reasonable benefit expectations, security of the benefits and service levels for the following two groups of policyholders:

- the Transferring Policyholders; and
- the Chubb Life HK Policyholders.

2.23 The report is prepared in accordance with the approach and expectations in section 2 paragraphs 27 to 40 of the Prudential Regulation Authority ("PRA"), as set out in "The Prudential Regulation Authority's approach to insurance business transfers" dated 2022 (the "PRA Statement of Policy"), this is enclosed as Appendix C to this Report. I have also used Chapter 18 of the Supervision Manual ("SUP 18") contained in the Financial Conduct Authority ("FCA") Handbook as a reference document. Subsections SUP18.2.31G to SUP18.2.41G, which provide guidelines on the form of the independent expert scheme report, are enclosed as Appendix D to this Report.

2.24 In preparing the Report, I have focused on the changes that arise from the Proposed Schemes, rather than changes that might arise in the ordinary course of business. The scope of my work does not include assessing the impact of the Schemes on the shareholders of the Companies. I have considered the Schemes as presented to me and have not considered any other alternative schemes.

2.25 In reviewing the current operations of CLICL and Chubb Life HK (together referred to as "the Companies" or "the Parties"), I have been provided with a substantial amount of information by or on behalf of the Companies. Much of this information is confidential and/or commercially sensitive and is technical in nature. I, therefore, have not explicitly described or quoted such information in this Report unless, in my opinion, it is necessary to do so for the Courts and other readers to gain a clear understanding of the potential impacts of the Proposed Schemes on the Transferring Policyholders and the Chubb Life HK Policyholders. Nonetheless I have taken this information into consideration in formulating my understanding and opinions of the Proposed Schemes.

2.26 CLICL has, on behalf of the Companies, provided me with a letter of representation dated 12 May 2023 confirming that the information provided to me by or on behalf of the Companies is accurate and complete.

2.27 The two groups of policyholders identified above have entered into long term insurance contracts with specified contractual benefits in future events. The security of the policyholders' benefits and rights is therefore the most important consideration to the Proposed Schemes.

Impact on Transferring Policyholders

2.28 It is my opinion that the Transferring Policyholders will not be adversely impacted by the Proposed Schemes.

2.29 CLICL has confirmed that under the Proposed Schemes, there are no changes to the policy terms that defined the contractual benefits and rights of the Transferring Policyholders. CLICL has shown that

- From contractual standpoint, CLICL has confirmed no change to the terms of policy contracts issued by CLICL. Therefore, the same policy benefits will continue post-transfer. The insurance contracts cannot be changed without a bilateral agreement between the CLICL and the policyholder.

- The Scheme cannot be altered unless it has the approval of the Hong Kong Court and is subject to any conditions which the Insurance Authority may require or the Hong Kong Court may impose

- From a policy servicing and back-office support standpoint, a transition plan has been proposed for the same employees who have been administering the Transferring Policies at CLICL to continue servicing the Transferring Policies after the Transfer. Therefore, the level of service should remain the same.

2.30 The Transferring Policies are currently being administered by the staff of CLICL. As and when the Proposed Schemes become effective, the Companies propose that these members of staff will cease to be employed by CLICL and immediately become employed by Chubb Life HK on terms which are no less favourable to them than the terms on which they are employed by CLICL. As such, there is no expectation to any change in the levels of service for the Transferring Policies once these become administered by Chubb Life HK.

2.31 CLICL's current level of financial resources exceeds the Hong Kong regulatory capital requirements. Under Hong Kong regulatory capital requirements, insurers are required to maintain sufficient assets to cover the long term liabilities plus a solvency margin calculated in accordance with CAP 41F – Insurance (Margin of Solvency) Rules. The minimum solvency ratio, calculated as the ratio of Statutory Capital and Surplus to its Statutory Capital Requirement, is 100%. For monitoring purposes, the HKIA requires the long term insurers to maintain a solvency ratio of at least 150%. CLICL's Hong Kong solvency ratio is 310% as of 31 December 2022.

2.32 CLICL's current level of financial resources exceeds the Bermuda regulatory capital requirements. The Bermuda Solvency Capital Requirement (the "BSCR") calculates a risk-based capital to establish an overall measure of capital and surplus for Bermuda statutory solvency purposes. CLICL's Bermuda Solvency Capital Requirement Ratio ("BSCR Ratio") is 370% on a consolidated basis as of 31 December 2022.

2.33 CLICL manages its funds in a manner consistent with the general principles and philosophy of Chubb Group's global asset management policy. Underlying assets of CLICL's business are currently under the management of external investment managers, such investment agreements will be transferred from CLICL to Chubb Life HK on identical terms after the proposed transfer. While the external investment managers will retain the rights to review the respective asset allocation and investment decisions within the context of the investment policies, which were set by CLICL before the Effective Date and will be adopted by Chubb Life HK thereafter, such rights exist whether or not the Proposed Schemes proceeds, and will not be affected by the Proposed Schemes. Therefore, the Transfer shall not affect current asset allocation and asset duration and should not cause any significant change in the financial position.

2.34 After the Transfer, the Transferring Policyholders will have policies backed by Chubb Life HK, a company whose level of financial resources also exceeds the Hong Kong regulatory capital requirements. The ratio of Chubb Life HK's Statutory Capital and Surplus to its Statutory Capital Requirement is 396% as of 31 December 2022, where the HKIA requires the long term insurers to maintain a solvency ratio of at least 150%.

2.35 The existing reinsurance agreements CLICL has entered will be transferred separately by way of novation to Chubb Life HK. CLICL has notified the reinsurers. The legal team of CLICL and Chubb Life HK are in process of drafting and signing new agreements with the reinsurers to novate the existing terms and conditions under these arrangements to Chubb Life HK. The expectation is for all the new agreements to take effect on the transfer date.

2.36 There will be no impact on the Transferring Policyholders, as prior to 1 July 2023, Chubb Life HK will establish two new funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) on the Effective Date. The insurance funds will be:

- a Chubb Life HK New Life Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits) and Class D Policies to be transferred from CLICL Life Fund; and
- a Chubb Life HK New Linked Fund for Class C Policies (Unit Linked Benefits) to be transferred from CLICL Linked Fund.

2.37 Currently, Chubb Life HK has ceased the offering of its existing products while CLICL continues to offer its products until 30 June 2023. Starting 1 July 2023, Chubb Life HK will start offering former CLICL products which will be issued under the company name Chubb Life HK and which will be identical to the products currently offered by CLICL until 30 June 2023. With effect from 1 July 2023, CLICL will cease to receive new policy applications. All policies underwritten by Chubb Life HK on and after 1 July 2023 will be allocated to the Chubb Life HK New Life Fund or the Chubb Life HK New Linked Fund respectively. Given that it will be of the same products for the newly issued Chubb Life HK policies and Transferring Policies, I do not expect the Transfer to have any material impact on the assets backing the liabilities in relation to the newly issued Chubb Life HK policies and the Transferring Policies.

2.38 I consider that the Proposed Schemes will have no adverse material effect on the Transferring Policyholders in respect of matters such as claims settlement, investment management, capital management, underwriting, risk management and expense levels in relation to the security of Transferring Policyholders' contractual rights and levels of service provided based on my review for reasons stated above.

Impact on Pre-Transfer Chubb Life HK Policyholders

2.39 It is my opinion that the Chubb Life HK Policyholders will not be adversely affected by the Proposed Schemes.

2.40 Chubb Life HK has confirmed that under the Proposed Schemes, there are no intended changes to the contractual benefits and rights of the Chubb Life HK Policyholders.

- From contractual standpoint, Chubb Life HK has confirmed the same policy benefits will continue post Transfer. The contractual obligations cannot be changed unilaterally.
- From a financial standpoint, Chubb Life HK has demonstrated its financial strength will remain as healthy to ensure the Chubb Life HK is prepared to meet all terms and conditions of the policies.
- From a servicing and back office support standpoint, a transition plan has been devised such that the employees who are currently servicing the policies will continue their service.

2.41 Should the Proposed Schemes be implemented, the solvency position of Chubb Life HK is projected to exceed the regulatory capital requirements. Under Hong Kong regulatory capital requirements, insurers are required to maintain sufficient assets to cover the long term liabilities plus a solvency margin calculated in accordance with CAP 41F – Insurance (Margin of Solvency) Rules. For monitoring purposes, the HKIA requires the long term insurers to maintain a solvency ratio of at least 150%. The ratio of Chubb Life HK's Statutory Capital and Surplus to its Statutory Capital Requirement is projected to be over 200% for the next three years, which is above 150% required by HKIA.

2.42 There will be no impact on the Chubb Life HK Policyholders, as prior to 1 July 2023, Chubb Life HK will establish two funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) on the Effective Date, managed separately from the existing Chubb Life HK insurance funds.

2.43 Under the Proposed Schemes, CLICL will bear the cost and expenses related to my appointment as the Independent Expert, and the cost of implementation will be borne by Chubb Life HK and met by Chubb Life HK's Shareholders' Fund. The Transferring Policyholders and Chubb Life HK Policyholders will not bear any of the costs of implementing the Proposed Schemes, including and not limiting to those relating to project management, legal, tax and actuarial consultancy costs, licensing fees and policyholder mailings or other communicative expenses.

2.44 Chubb Life HK asset management policy follows the general principles and philosophy of Chubb Group's global asset management policy. Therefore, the Transfer is not expected to affect current asset allocation and duration nor cause any significant change in the Chubb Life HK's solvency position.

2.45 Currently some business of Chubb Life HK's Long Term Business is reinsured with Cigna Global Reinsurance Company Limited. There will be no change to those reinsurance treaties post the Transfer. Cigna Global Reinsurance Company Ltd. will continue to provide the coverage to those policies under the same terms.

Conclusion

2.46 Based on the above, my opinion is that:

- the Proposed Schemes will not adversely affect the contractual benefits or rights of the Transferring Policyholders or the Chubb Life HK Policyholders in any respect;
- the Proposed Schemes will not adversely affect the reasonable benefit expectations of the Transferring Policyholders or Chubb Life HK Policyholders in any respect;
- the Proposed Schemes will not adversely affect the financial security of the Transferring Policyholders' benefits or the Chubb Life HK Policyholders in any respect; and
- the Proposed Schemes will not adversely affect the expected levels of service for the Transferring Policyholders or the Chubb Life HK Policyholders in any respect.
- I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operate as presented.

Reliances

2.47 The report is subject to the Reliances and Limitations as set out in Section 10. In forming my opinions, I have had access to documentations provided by the Companies. The list of documentations I relied on is detailed in Appendix B. I have also had access to staff and management of the Companies to gain a better understanding of the information provided to me.

2.48 I have relied on the accuracy of information provided by or on behalf of the Companies or employees of the Companies, both in writing and orally. I consider it is reasonable to rely on the information as much of the information has been subject to internal and external audit or other peer reviews, and I have had the opportunity to question inconsistencies in the information provided. My team and I have reviewed the information provided for general reasonableness and accuracy based on my own experience of the insurance industry.

2.49 The Companies have submitted the reported solvency positions and projections of the solvency positions on HKIO basis to the HKIA. In the context of my opinion on the Transfer, I believe the Companies have taken a reasonable approach in producing the solvency ratios over projected years for me to form my opinions.

2.50 The Companies have forecasted the projected solvency positions for Chubb Life HK after the Hong Kong Scheme is implemented. Details of the financial projections are set out in Section 6.

2.51 I have not independently reviewed the calculations provided to me and I explicitly rely on the Companies and their Appointed Actuaries and Chief Actuaries that all the calculations used in relation to the Hong Kong Scheme are appropriate and accurate as presented. I have, however, reviewed the methodology and assumptions used in some of the calculations.

Limitations

2.52 This report has been written on the basis that it will be utilized by persons competent in the areas addressed and with knowledge of the business activities of the Companies and the nature of the risks and rewards inherent in the life insurance business in which they operate.

2.53 This report must be considered in its entirety. Draft versions of this report should not be relied upon for any purpose.

2.54 When forming my conclusion in this report concerning the effect of the Transfer, I have considered the Proposed Schemes and asked for information about Company's plan to understand the wider picture.

2.55 The report was based on data as at 31 December 2022 and does not take into account any developments after that date unless stated explicitly to the contrary in this Report.

2.56 This report does not provide financial or other advice to individual policyholders, and must not be construed as legal, investment or tax advice.

2.57 Figures in all tables in this Report are subject to rounding differences.

2.58 All currency amounts in this Report are in USD. Any currency conversions are based on an exchange rate of 0.12799 USD to 1 HKD.

Section 3: Background

Context

3.1 CLICL proposes to transfer all of its long term business to Chubb Life HK. This will be effected as a scheme of transfer (the “Proposed Schemes”) under Hong Kong law pursuant to section 24 of the Insurance Ordinance (the “Ordinance”) and under the Bermuda law pursuant to section 25 of the Insurance Act 1978 (the “Act”).

3.2 CLICL was incorporated in Bermuda on 28 July 1976 and was registered in Hong Kong as a non-Hong Kong company on 31 August 1984.

3.3 CLICL’s long term business (“the Transferring Business”) is subject to the supervision of the Bermuda Monetary Authority (the “BMA”), Hong Kong Insurance Authority (“HKIA”), Securities and Futures Commission (“SFC”) and Hong Kong Health Bureau (“HHB”) (the HKIA, SFC and HHB jointly referred to as the “HK Regulators” and together with the BMA, the “Regulators”). Both HHB and SFC will be notified by the Companies after the application for Transfer is filed with the Courts (and which needs approval from the SFC in relation to investment linked assurance schemes for the Transfer and an application to the HHB regarding re-certification of certain Transferring Policies which are Voluntary Health Scheme ("VHIS") policies). The relevant policyholders will be provided sufficient advance notice of the Transfer.

3.4 Chubb Life HK is a company incorporated under the laws of Hong Kong on 19 July 2005. The company was formerly known as CIGNA Worldwide HK Life Company Limited, then CIGNA Worldwide Life Insurance Company Limited. Both CLICL and Chubb Life HK are subject to the HKIA supervision.

3.5 Under the Proposed Schemes, CLICL intends to transfer all of its assets and liabilities to Chubb Life HK with the intention to wind down CLICL.

3.6 Currently, Chubb Life HK outsourced the administration of its long term insurance policies to CLICL for this to be carried out in parallel with administration of CLICL’s own long term business. The outsourcing is governed by the terms in Policy Administration Agreement.

3.7 As and when the Proposed Schemes become effective, the Companies propose that these members of staff will cease to be employed by CLICL and immediately become employed by Chubb Life HK on terms which are no less favourable to them than the terms on which they are employed by CLICL. As such, the Companies do not expect any change in levels of service for the Transferring Policies once they are to be administered by Chubb Life HK. The Policy Administration Agreement will be terminated after the completion of the Transfer.

3.8 The purpose of the Proposed Schemes is to avoid duplication of the insurance products, management, administration servicing and cybersecurity monitoring of separate IT systems, and improve efficiency of Policy servicing, accounting, audit, regulatory and actuarial compliance. It will simplify Chubb Group’s corporate structure in Hong Kong, and achieve regulatory alignment and compliance, avoiding duplication of risk management assessments and creating greater synergies between Chubb Group companies in Hong Kong. It should enable simpler, clearer and more transparent communications with both the Transferring Policyholders and with Chubb Life HK Policyholders. It will facilitate Chubb Group’ strategic plans for Chubb Life HK, as a company incorporated in Hong Kong, to take advantage of the Hong Kong Government’s efforts to enable authorized insurers to expand their Long Term Business into the Greater Bay Area.

3.9 Pursuant to sections 24 and 25(1) of the Insurance Ordinance, the Companies have agreed to make a joint application to the Hong Kong Court under section 24 of the Insurance Ordinance to transfer the CLICL’s long term business carried on in Hong Kong from CLICL to Chubb Life HK. Section 24 of the Insurance Ordinance requires the petition to be accompanied by a report on the Hong Kong Scheme by the Independent Actuary.

3.10 In addition, under the provisions of Bermuda law, in particular section 25 of the Insurance Act, CLICL will also apply to the Bermuda Court, by petition, for an order sanctioning the Bermuda Scheme. The Insurance Act requires the petition to be accompanied by a report (including any supplementary report(s), if necessary) on the Bermuda Scheme to be prepared by an Approved Actuary.

3.11 I have been engaged by the Companies to perform the role of the role of Independent Actuary as required under Section 24 of the Ordinance, and Approved Actuary as required under Section 25 of the Insurance Act.

3.12 WTW has nominated me, Cindy Chou, to be the Independent Actuary to prepare the required report for the Proposed Schemes pursuant to Section 24 of the Ordinance and as the Approved Actuary to Section 25 of the Insurance Act. My appointment as the Approved Actuary in connection with the Proposed Schemes was approved by the BMA on 2 September 2022, and notified to the HKIA on 6 December 2022.

Statement of Independence

3.13 Neither I, nor any member of my immediate family, hold any shares, have any contracts of insurance, or have any other financial interest in the legal entities involved in the Proposed Schemes, or with any companies within the Chubb Group.

3.14 Chubb & Son, for itself and as servicer for The Chubb Corporation and as manager or servicer of the subsidiaries and affiliates of The Chubb Corporation (“Chubb Group”), and WTW entered into a Master Consulting Services Agreement dated 25 September 2013, as amended by Amendment No 1 dated July 3, 2019, between Chubb & Son and WTW (“the Master Consulting Agreement”). WTW also has a range of working relationships with the Chubb Group. However, I do not consider that the Master Consulting Agreement and/or the nature of these relationships impacts on my ability to act as the Approved Actuary for the Proposed Schemes.

3.15 I am not aware of any other actual, potential or perceived conflicts that prevent me from objectively fulfilling the role of the Independent Actuary for the Proposed Schemes.

Methodology

3.16 In reporting on the Proposed Schemes as the Independent Actuary, I recognise that I owe a duty to the Courts to help on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid. I confirm I have complied with, and continue to comply, with this duty.

3.17 In accordance with the scope of my review, I have considered whether the Proposed Schemes properly and adequately safeguards the contractual benefits and other rights of the two distinct groups of affected policyholders affected by the Proposed Schemes being:

- the policyholders of the Transferring Policies (the “Transferring Policyholders”); and
- the current policyholders of Chubb Life HK (the “Chubb Life HK Policyholders”).

3.18 The report is prepared in accordance with the approach and expectations in section 2 paragraphs 27 to 40 of the Prudential Regulation Authority (“PRA”), as set out in “The Prudential Regulation Authority’s approach to insurance business transfers” dated 12 January 2022 (the “PRA Statement of Policy”), this is enclosed as Appendix C to this report. I have also used Chapter 18 of the Supervision Manual (“SUP 18”) contained in the Financial Conduct Authority (“FCA”) Handbook as a reference document. Subsections SUP18.2.31G to SUP18.2.41G, which provide guidelines on the form of the independent expert scheme report, are enclosed as Appendix D to this report.

3.19 I have also considered with respect to Transferring Policyholders and Chubb Life HK Policyholders who are participating policyholders, whether their reasonable benefit expectations in relation to future bonuses, dividends or surplus distributions would be adversely affected if the Proposed Schemes were implemented.

3.20 I have also considered if the security of their policy benefits and the expected levels of service would be adversely affected if the Proposed Schemes were implemented.

3.21 I am required to comment on the impact of the Proposed Schemes on the existing policyholders of the Companies. My Report is not concerned with possible alternatives to the Proposed Schemes or with the potential impact of the Proposed Schemes on future policyholders of the Companies.

3.22 For the purposes of the Report, I have regarded a matter as being not material for a group of policyholders if, in my view, that matter has such a small impact (or potential impact) that it is inconsequential or not relevant for that group of policyholders considered as a whole. There has been no issue brought to my attention by the Companies or identified as not material during the review process.

3.23 It is intended that the Proposed Schemes will take effect at 12:00 a.m. Hong Kong Standard Time on 1 December 2023 or on such date mutually agreed by CLICL and Chubb Life HK, which date will be within 90 days after the date on which the High Court order is granted sanctioning the Hong Kong Proposed Schemes.

3.24 My opinions on the security of policyholders' benefits are based on financial information as of 31 December 2022, and consideration of the impact of the Proposed Schemes that takes place in 2023.

3.25 For the purposes of my review, I have assumed that, as at the Effective Date, both prior to and post implementation of the Proposed Schemes:

- the statutory funds in relation to the Transferring Portfolio will meet the requirements of the Insurance Act and the Insurance Ordinance prior to the implementation of the Proposed Schemes;
- the statutory funds in relation to the Transferring Portfolio will meet the requirement under relevant Hong Kong legislation after the implementation of the Proposed Schemes;
- the statutory funds and shareholders' funds of Chubb Life HK will continue to meet the requirements by the HKIA; and
- the statutory and shareholders' funds of the Companies will continue to hold surplus capital at a level within or above the target operating range specified in the internal capital policies set by the Companies.

3.26 In forming my opinions, I have distinguished between changes arising under the Proposed Schemes and changes that might arise in the normal conduct of the business, with and without the Proposed Schemes taking place. In my view, the normal safeguards under the Insurance Ordinance and the Insurance Act, and current regulations in each jurisdiction, should serve to protect the interests of the Transferring Policyholders and the Chubb Life HK Policyholders in case of these latter changes. Therefore, in my view, only changes arising as part of the Proposed Schemes, and which could not occur in the normal conduct of the business, have relevance for my opinions, and I have formed my opinions accordingly.

3.27 This review does not comprise an audit of the financial resources and liabilities of CLICL or of Chubb Life HK.

3.28 I have not evaluated the systems and controls currently operated by CLICL or Chubb Life HK.

Section 4: Overview of Businesses

Chubb Life Insurance Company Ltd.

4.1 CLICL is a company incorporated under the laws of Bermuda on 28 July 1976 and is authorized to carry on business as a long term insurer.

4.2 CLICL was registered in Hong Kong as a non-Hong Kong company for the purposes of Part 11 of the former Companies Ordinance (Cap. 32 of the Laws of Hong Kong), now Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 31 August 1984 and is authorized by the Hong Kong Insurance Authority ("HKIA") to carry on business under Class A (Life and annuity), C (Linked long term), D (Permanent health), and I (Retirement scheme management category III) of long term business as defined in the Insurance Ordinance ("Long Term Business") in or from Hong Kong.

4.3 CLICL long term business funds pursuant to Section 22(1)(a) of the Ordinance has the following structure:

- CLICL Life Insurance Fund (Class A, Class C General Account and Class D) including HKD portfolio and USD portfolio;
- CLICL Linked Fund (Class C Separate Account); and
- CLICL Surplus Fund after Policy Liabilities (Surplus Fund).

There is fund segregation of assets and liabilities between the Life Insurance Fund and the Linked Fund.

4.4 CLICL Life Insurance Fund asset is USD 3,159 million, and surplus is USD 129 million as of 31 December 2022. The surplus fund is USD 286 million, of which USD 262 million is Surplus Fund after Policy Liabilities. After considering the regulatory requirement of 1/6 solvency margin held in each class of business, the surplus for Class A, Class C General Account and Class D is about USD 108 million. The table below summarizes the CLICL's fund balances as of 31 December 2022.

Table 4.1 – CLICL's Fund Balances as of 31 December 2022
in USD Millions

	CLICL					
	Life Insurance Fund					
	Class A	Class C GA	Class D	Class C SA	Surplus Fund	Total
Asset	3,142	17	0	222	286	3,666
Liability	3,022	8	0	222	23	3,275
Surplus	120	9	0	0	262	391
1/6 Solvency Req	20	1	0			21
Surplus after 1/6 Solvency Req	100	9	0			

4.5 CLICL is wholly owned by Chubb INA International Holdings Ltd. (USA/DE) and its ultimate controlling parent is Chubb Limited, a Swiss company listed on the New York Stock Exchange (Ticker: CB) and a component of the Standard and Poor's 500 index.

4.6 CLICL is licensed by HKIA and the BMA. CLICL does not carry on any insurance business outside Hong Kong and does not have any other branches or subsidiaries.

4.7 Although CLICL is authorized to carry on Class I (Retirement scheme management category III) Long Term Business, it has not carried on that Class of Long Term Business. CLICL currently writes life business mainly in life and annuity, unit-linked products and health in or from Hong Kong.

4.8 After the Proposed Schemes become effective, CLICL will no longer underwrite long term business and CLICL intends to hand back its license to HKIA and cease its registration in Hong Kong. Chubb Life HK will carry on CLICL's Long Term Business as successor to CLICL. This is to achieve a single Chubb Group presence in Hong Kong.

4.9 There are certain functions, processes and controls such as investment and liquidity management, compliance and internal audit, carried out centrally at the Group level, which provide an effective operational framework for CLICL.

The Transferring Portfolio

4.10 The Transferring Portfolio comprises all insurance business of CLICL and is required to be compliant with Hong Kong insurance laws and regulations including but not limited to section 8 of the Insurance Ordinance and the Dynamic Solvency Testing ("DST") under the Actuarial Guidance Note 7 ("AGN7").

4.11 As of 31 December 2022, there were 192,935 policies in the Transferring Portfolio. Traditional Life policies constitute the largest part of the Transferring Portfolio. They constitute about 72.5% of total CLICL's reserves and 66.1% of the in-force premium.

4.12 Table below summarizes the inforce statistics for CLICL as of 31 December 2022.

Table 4.2 - CLICL's Inforce Statistics as of 31 December 2022
in USD Millions

	No. Policies	In-force Annual Premium*	Total Statutory Reserve
Traditional Life	159,255	357	2,115
Unit Linked	14,965	29	225
Universal Life	18,715	88	461
Riders	-	67	116
Company Total	**192,935**	**540**	**2,917**

**Includes Single Premium and Regular Premium*

4.13 The Transferring Portfolio consists of the following types of policies:

- **Participating policies**: The majority of the in-force block of this portfolio consists of participating policies with policyholder dividends. These policies were usually sold with levels of illustrated dividends reflecting investment returns at the time of sale. As of 31 December 2022, there were 120,229 participating policies with statutory reserves of $1,762.1 million. Actual dividends paid in total for year 2022 were $10.0 million.

- **Non-Participating policies**: The non-participating business includes endowment, term policies, unit-linked, and universal life products. CLICL also issues rider contracts such as accident, hospitalization, critical illness, disability, term life and single premium whole life riders. There were 72,706 non-participating policies in the Transferring Portfolio as of 31 December 2022, with statutory reserves of $1,154.5 million, (including Riders).

CLICL Financial Position under HKIO Basis

4.14 The following table summarizes the profit and loss account for the CLICL for financial year of 2022, based on Hong Kong Insurance Ordinance ("HKIO").

Table 4.3 – Statement of Income for CLICL as of 31 December 2022	
in USD Millions	CLICL
Net premiums	367.0
Net investment income	13.9
Other income	5.5
Total income	**386.4**
Claims and other policyholder benefits	(136.3)
Decrease in long-term business reserves	503.8
Net Policy holder account balance	18.7
Commissions	(28.1)
Cost and expenses	(48.7)
Total benefits and expenses	**309.4**
Underwriting profit transferred to profit and loss account	**695.8**
Other expenses	(0.3)
Profit before taxation	**695.5**
Taxation	(3.1)
Profit after taxation	**692.4**

4.15 The following table summarizes the balance sheet for CLICL as of 31 December 2022, based on HKIO.

Table 4.4 – Balance Sheet for CLICL as of 31 December 2022	
in USD Millions	CLICL
Fixed assets	11.6
Investments	3,427.1
Accrued investment income	41.8
Premiums receivable	13.6
Other assets – unsecured	31.3
Other receivables	32.9
Deferred acquisition costs related to management of investment contracts	9.7
Cash and cash equivalents	69.2
Right-of-use asset	21.6
Other assets	7.2
Total Assets	**3,666.0**
Long-term business reserves	2,130.8
Policyholder account balance	868.5
Dividends payable to policyholder – life	9.7
Dividend on deposits – policyholders	104.0
Policy contract claims	16.3
Premiums received in advance	17.2
Commissions payable – direct	5.6
Derivative liabilities	61.0

Other creditors – unsecured	21.7
Lease liability	22.5
Other	17.6
Total Liabilities	**3,274.9**
Common stock	300.1
Unearned stock grant compensation	0.8
Accumulated profit	406.8
Unrealized investment loss	(316.6)
Total shareholder's equity	**391.1**
Total liabilities and shareholder's equity	**3,666.0**

CLICL Solvency Position under HKIO Basis

4.16 Under section 8 of the Insurance Ordinance, an authorized insurer in Hong Kong, such as CLICL, is required to maintain an excess of assets over liabilities of no less than the required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer's assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating result or the value of its assets and liabilities. For an insurer carrying on Long Term Business only, the solvency margin is determined by the greater of:

- HK$2 million; or
- the amount specified under the Insurance (Margin of Solvency) Rules (which is generally 4% of the mathematical reserves and 0.3% of the capital at risk).

4.17 Hong Kong insurance regulations also require an insurer carrying on long term Business to perform the Dynamic Solvency Testing ("DST") under Actuarial Guidance Note 7 ("AGN7"), passed by the Actuarial Society of Hong Kong ("ASHK"). The insurer is required to conduct financial projection under a base scenario and some plausible adverse scenarios, including 6 prescribed scenarios per AGN7 and 6 additional plausible scenarios from HKIA. The insurer's financial condition is satisfactory if throughout the forecast period (the forecast period for a typical life insurer would be three financial years):

- under the base scenario it meets the minimum regulatory capital requirements; and
- under all plausible adverse scenarios, the assets exceed the liabilities.

4.18 Under Hong Kong regulatory capital requirements, insurers are required to maintain sufficient assets to cover the long term liabilities plus a solvency margin calculated in accordance with CAP 41F – Insurance (Margin of Solvency) Rules. The minimum solvency ratio, calculated as the ratio of Statutory Capital and Surplus to its Statutory Capital Requirement, is 100%. For monitoring purposes, the HKIA requires the long term insurers to maintain a solvency ratio of at least 150%.

4.19 Solvency margins are maintained by the CLICL in addition to the policy reserves in respect of the policies in-force. CLICL has an internal target capital requirement of 200%, which is an enhancement over the regulatory capital requirement of 150%.

4.20 As of 31 December 2022, CLICL solvency ratio is about 310%. The table below summarizes the current and projected solvency position of CLICL as of 31 December 2022 to 2025 under the base scenario per AGN7.

Table 4.5 - Projected HKIO Solvency Positions for CLICL – Base Scenario				
in USD Millions	2022	2023	2024	2025
Surplus	387.6	499.3	612.7	706.0
Minimum Required Margin	124.9	134.3	146.5	164.8
Solvency Ratio	310.4%	371.8%	418.2%	428.5%

4.21 Based on the 31 December 2022 projection, CLICL projected solvency position is well in excess of the regulatory capital requirement of 150% with an upward trend in the three-year projection. The upward trending solvency ratio position is reflective of an increasing interest rate environment in 2022.

4.22 CLICL business is interest rate sensitive. In order to monitor and track CLICL capital position against its internal capital target, CLICL may consider the following actions to maintain its capital position:

- regular oversight and reporting of capital position to management, the Board or Committees and Chubb Regional Office;
- solvency forecasts are included in budgeting and planning processes;
- stress testing of a range of scenarios to ensure appropriate capital buffers;
- balance sheet management via investment policy, reinsurance program, underwriting guidance, and internal/external audit.

4.23 In 2022, CLICL has taken the following risk mitigation actions to manage their risk exposure:

- interest rate swaps to reduce the surplus volatility due to HKD interest rate;
- currency forward contract to remove the currency mismatch between assets and liabilities;
- existing subordinated loan agreement with Chubb Tempest Life Reinsurance Ltd. ("CTLR"), an affiliated entity, has approved loans up to USD 35 million from CTLR to CLICL when required, for the purpose of maintaining current prevailing solvency standard set by IA. The Companies expect that a new agreement between Chubb Life HK and CTLR will replace the existing agreement effective at the proposed transfer date. The terms of the agreement will mirror the existing agreement such that Chubb Life HK may request an advance at any time after the date of the agreement by submitting a written notice to CTLR with the proposed amount and date of the advance, up to an aggregate principal amount of USD 35 million.
- periodic review of potential reinsurance arrangements to maintain CLICL's capital position.

4.24 Under all plausible adverse scenarios, assets exceed the liabilities for the next three financial years. The table below summarizes the projected surplus for the next three financial years under all prescribed and plausible adverse scenarios.

Table 4.6 - Projected Surplus for CLICL – Additional Scenarios						
in USD Millions	Surplus			Solvency Ratio		
	2023	2024	2025	2023	2024	2025
Prescribed Scenario						
1. 15% increase in Mortality and Morbidity	440.6	549.3	636.1	323%	369%	380%

2. Lapse increased/decreased by 5%	485.9	585.6	664.8	362%	400%	403%
3. Interest rate drop of 30% & Equity drop by 25%	516.4	593.0	647.2	357%	377%	367%
4. Interest rate rise by max of (2%, 30% of plan) & Equity drop by 25%	193.7	308.2	420.4	152%	220%	266%
5. High sales growth – max of (30%, 150% of plan growth)	494.0	603.5	697.5	367%	408%	417%
6. Low sales growth – 80% of 2020; and 20% drop for years 2 and 3	501.8	615.5	694.6	377%	434%	452%
Plausible Scenario						
1. Pandemic outbreak (excess death of 0.75 per thousand and 10% increase in Morbidity in year 1, equity drop by 25%, lower sales)	426.1	531.2	604.0	320%	372%	385%
2. Medium-term inflationary (4.0% increase in new money yield & 25% drop in equity) **(Before Management Actions)**	0.9	76.9	197.9	1%	56%	127%
2. Medium-term inflationary (4.0% increase in new money yield & 25% drop in equity) **(After Management Actions)**	186.9	262.8	383.8	150%	191%	246%
3. Medium-term deflationary (50% drop in new money yield & 25% drop in equity)	510.1	557.3	603.0	352%	355%	343%
4. Operational incidents (30% drop in sales, additional 10% lapse for inforce policies & 20% increase in acquisition expense for 2 years)	540.5	681.7	738.8	440%	553%	567%
5. Counterparty default events (max of (0.5% of MV of investment grade bonds + 3% of MV of non-investment grade bonds, default of largest bond issuer), widening of corporate spreads)	314.9	428.8	527.6	234%	292%	320%
6. Widening of Credit Spread	201.3	301.6	392.7	154%	211%	243%

4.25 Based on the results above, CLICL meets all of the requirements for satisfactory financial condition per AGN7 as of 31 December 2022.

CLICL Solvency Position under Hong Kong Risked-Based Capital ("HKRBC") Basis

4.26 CLICL conducts an annual Own Risk and Solvency Assessment ("ORSA") supervisory report in compliance with GL21 ("Guideline on Enterprise Risk Management") issued by the HKIA. Under this assessment the solvency position is assessed using the proposed HKRBC basis rather than the current HKIO basis.

4.27 The objectives of the ORSA includes:

- Enhance risk management function and practices that include formulation of appropriate business objectives.
- Further integrate risk management within the organization.
- Increase awareness and extend credibility with senior management and the Board of Directors.
- Facilitate the assessment of overall solvency needs and capital adequacy in order to enhance capital management.
- Satisfy regulatory requirements.

4.28 CLICL Stress and Scenario Testing ("SST") is performed to ensure sufficient actions are available through recovery and continuity plans, where necessary. The stress scenarios include prescribed scenarios covering stresses in interest rates, credit spread widening, increase in mortality and morbidity, and change in business growth, and the insurer's own scenarios. The solvency ratio under base and stress scenarios is benchmarked against CLICL's internal target capital level of 110% on HKRBC basis.

4.29 CLICL will take capital management action according to its plan, including but not limited to interest rate swap ("IRS"), subordinated loan agreement and equity capital injection, within a reasonably short period of timeframe to maintain the healthiness of solvency ratio.

4.30 CLICL's HKRBC solvency ratio is 313% as of 31 December 2022, and its projected HKRBC solvency ratios are over 110% of its internal target capital level in the 3-year projection, as shown in the table below.

Table 4.7 – HKRBC Solvency Positions for CLICL in USD Millions				
	2022	**2023**	**2024**	**2025**
Available Capital	1,022.1	1,132.2	1,285.8	1,454.0
Required Capital	326.9	386.1	477.1	580.2
HKRBC Solvency Ratio	**313%**	**293%**	**270%**	**251%**

4.31 For any scenarios that result in CLICL's capital resources falling below its minimum RBC regulatory capital requirement (i.e. 100%) and internal target capital (i.e. 110%), management actions will be taken to restore the stressed solvency position to be above its minimum regulatory capital level and internal target capital level within a reasonable timeframe. The internal target capital ratio is reviewed annually.

4.32 The table below shows the HKRBC solvency position as at 31 December 2022, 2023, 2024 and 2025. The stressed solvency position is above minimum regulatory capital level and CLICL's internal target capital, therefore no management action is required. The drop from 2022 to 2023 in the base scenario is mostly due to new business strain and the higher equity risk charges introduced in HKRBC.

Table 4.8 – HKRBC Solvency Positions for CLICL in USD Millions				
	2022	**2023**	**2024**	**2025**
Base Scenarios	313%	293%	270%	251%
Prescribed Scenario 1 – Prolonged low interest rates scenario	180%	159%	146%	137%
Prescribed Scenario 2 – Rising interest rates scenario	265%	256%	267%	273%
Prescribed Scenario 3 – Pandemic scenario	180%	150%	143%	137%
Prescribed Scenario 4 – Financial crisis scenario	111%	-	-	-
Own Scenario 1 – Medium-term Inflationary	254%	249%	260%	271%
Own Scenario 2 – Medium-term Deflationary	202%	174%	160%	145%

CLICL Financial Position Under Bermuda Financial Regulations

4.33 CLICL was incorporated under the Insurance Act 1978 as a Class E insurer on 28 July 1976. Insurers are required to prepare Statutory Financial Statements ("SFS") under the Bermuda regulations. Table below summarizes the profit and loss account for CLICL for the financial year of 2022 following Bermuda statutory requirements.

Table 4.9 - Bermuda Statement of Income for CLICL As of 31 December 2022 in USD Millions	CLICL
Net Premiums – Long Term Business	334.2
Net Investment Income	156.4
Other Income	7.1
Total Revenue	**497.7**
Deductions and Expenses – Long Term Business	390.9
Operating Expenses	(50.6)
Total Expenses	**340.3**
Net Income Before Taxes	**838.1**
Combined Income Taxes	(3.1)
Combined Realized Gains (Losses)	(142.5)
Combined Interest Charges	(0.1)
Net Income	**692.4**

4.34 The following table summarizes the Statutory Balance Sheet for CLICL as of 31 December 2022 following the Bermuda statutory requirements.

Table 4.10 - Bermuda Statutory Balance Sheet for CLICL As of 31 December 2022 in USD Millions	CLICL
Assets	
Cash and Cash Equivalents	69.2
Quoted Investments	1,674.0
Unquoted Investment	1,473.3
Policy Loans	56.2
Investment Income Due and Accrued	43.9
Accounts and Premiums Receivable	20.8
Reinsurance Balances Receivable	15.0
Sundry Assets	280.1
Total Assets	**3,632.3**
Liabilities	
Insurance Reserves – Long Term Business	2,914.4
Other Liabilities	344.3
Total Liabilities	**3,258.7**
Statutory Capital and Surplus	373.6
Total Liabilities and Equity	**3,632.3**

4.35 Insurers are also required to prepare Economic Balance Sheet ("EBS") under the Bermuda regulations. Table below summarizes EBS for CLICL for the financial year of 2022.

Table 4.11 - Bermuda Economic Balance Sheet for CLICL As of 31 December 2022 in USD Millions	CLICL
Assets	
Cash and Cash Equivalents	69.2

Quoted Investments	1,605.7
Unquoted Investments	1,449.5
Investments In and Advances to Affiliates (Equity Method)	7.0
Policy Loans	56.2
Investment Income Due and Accrued	43.9
Accounts and Premiums Receivable	13.7
Reinsurance Balances Receivable	15.0
Sundry Assets	270.3
Total Assets	**3,530.5**
Liabilities	
Net Long Term Business Insurance Provisions	2,265.6
Risk Margin – Long Term Insurance Business	102.9
Other Liabilities	344.3
Total Liabilities	**2,712.8**
Statutory Capital and Surplus	817.7
Total Liabilities and Equity	**3,530.5**

4.36 CLICL's unquoted investments refers to bond and equity investments that are not listed with major exchanges according to the Bermuda Economic Balance Sheet ("EBS") reporting requirements. These unquoted investments are traded over-the-counter ("OTC"). Total unquoted investment is USD 1.47 billion, which can be split into USD 1.44 billion of corporate bonds and USD 31 million of equities. The total of quoted and unquoted equities was USD 212m, which is 6.7% of the total quoted and unquoted investments as of 31 December 2022.

4.37 The liquidity exposure of the Company is monitored through Liquidity Adequacy Ratio as part of the risk tolerance assessment to ensure there are sufficient liquid assets to always meet policyholder's obligations. The current asset mix is within Company's Strategic and Tactical Asset Allocation of the approved investment mandate for each sub-fund, and there is no material deviation from the target Strategic Asset Allocation prior to the implementation of the Proposed Scheme.

4.38 CLICL calculates statutory capital requirement using the BSCR model ("Bermuda Solvency Capital Requirement"). The BSCR is a risk-based capital model that measures risk to determine an Enhanced Capital Requirement ("ECR"), and the regulatory required capital is defined as 120% of the Enhanced Capital Requirement ("ECR") for Class E insurers. The table below summarizes each component of BSCR model.

Table 4.12 - Enhanced Capital Requirement and Target Capital Level for CLICL as of 31 December 2022

in USD Millions	CLICL
Minimum Margin of Solvency	55.2
Enhanced Capital Requirement	221.1
Target Capital Level (120% of the Above)	265.3

4.39 As of 31 December 2022, the BSCR Ratio was approximately 370% for CLICL. Please note that the BSCR ratio was calculated under EBS basis.

Table 4.13 - BSCR Ratio for CLICL as of 31 December 2022

in USD Millions	CLICL
Statutory Capital Requirement	221.1
Statutory Capital and Surplus	817.7
BSCR Ratio	369.8%

4.40 Table below summarizes CLICL's technical provisions under Bermuda's EBS basis as of 31 December 2022.

Table 4.14 – Technical Provisions for CLICL as of 31 December 2022	
in USD Millions	**CLICL**
Best Estimate Liabilities ("BEL")	2,265.6
Risk Margin	102.9
Technical Provisions	**2,368.5**

4.41 BEL is calculated as the probability-weighted average present value of future cash flows (claims plus expenses minus premiums) and discounted using an interest rate term structure prescribed by the BMA. The BMA allows companies to choose between two approaches for discount rates:

- Standard Approach – this approach is available to all insurers and aims to allow some recognition of an illiquidity premium. The amount of illiquidity premium is determined by the BMA.
- Scenario-Based Approach – this approach is designed to allow insurers that have assets that are closely matched to their technical provisions to reflect the yields available on their assets, with suitable adjustments for credit spreads.

CLICL chooses to elect the Standard Approach as it most accurately reflects the nature of its business.

Bermuda Capital Management

4.42 The primary capital management objectives of CLICL are to maintain a strong capital base to support the achievement of its business objectives and to meet regulatory and rating agency capital requirements.

4.43 As of 31 December 2022, the entire capital of CLICL is Tier 1, the highest quality capital consisting of capital stock and statutory surplus. CLICL holds no Tier 2 or Tier 3 capital. 100 percent of the ECR and minimum margin of solvency are satisfied by Tier 1 capital.

Investment Management

4.44 CLICL's investment portfolio is managed by Chubb Group's asset management team in accordance with established investment guidelines which are closely monitored.

4.45 The portfolio is externally managed by independent professional investment managers and is broadly diversified across geographies, sectors, and issuers. The investment management firms are directed by Chubb's asset management team.

4.46 CLICL's investment guidelines stress diversification of risks and conservation of principal and liquidity. CLICL's investment portfolio is invested primarily in publicly traded, investment grade, fixed income securities.

4.47 CLICL holds no collateralized debt obligations or collateralized loan obligations in its investment portfolio, and provides no credit default protection.

Risk Management Process

4.48 CLICL's risk management process is aligned with Chubb's Global Enterprise Risk Management ("ERM") program which is broadly multi-disciplinary and its objectives include:

- Internal and External Risks – identify, analyze, quantify, and where possible, mitigate significant external risks that could materially hamper the financial condition of the company and/or the achievement of corporate business objectives;
- Exposure Accumulations – identify and quantify the accumulation of exposure to individual counterparties, products, particularly those that materially extend across or correlate between the balance sheet;
- Risk Modelling – develop and use various datasets, analytical tools, metrics and processes that help the company and business leaders make informed underwriting, portfolio management and risk management decisions within a consistent risk/reward framework;
- Governance – establish and coordinate risk policies that reflect the company appetite for risk, monitor exposure accumulations relative to established policies, and ensure effective internal risk management communication to management across the company and the Board; and
- Disclosure – develop protocols and processes for risk-related disclosures internally as well as externally to regulators.

4.49 ERM is an embedded, process-oriented discipline that is forward-looking and integrally linked to key business objectives of CLICL. CLICL's ERM process is aligned with the wider Chubb Group. ERM is a part of the day-to-day management of CLICL and its operations.

Risk Mitigation

4.50 The material risks that CLICL is exposed to during financial year of 2022 are summarized below.

- Insurance risk – the risk under any one insurance contract is the uncertainty on the timing of the insured event occurs and the amount of the resulting claims. By the very nature of an insurance contract, this risk is random and therefore unpredictable.
- Interest rate risk (risk free movements) – insurance and investment contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually based on a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefit) and hence CLICL's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable. CLICL only bears financial risk in relation to the guaranteed benefits payable under these contracts and does not bear any interest rate risk in relation to the undistributed dividend component of the liability as the level of dividend is adjustable to reflect investment returns in excess of the investment return required for guaranteed benefits.
- Credit spread movements and concentration risk – credit spread widening arising from downgrades and macroeconomic factors can cause significant devaluation of fixed income assets. CLICL continues to closely monitor market movements and credit events

to promptly react in response to significant market events. In order to diversify the credit risks, CLICL internal risk guidance monitors top counterparty risk and asset concentration risk. The goal is to have a well-diversified asset portfolio such that policyholders are not materially impacted by a single credit event.

- Equity risk – There is no minimum guaranteed feature in CLICL's Linked policies and investment performance of Linked Fund will be entirely passed to the policyholders. For equity investment in the Life Insurance Fund, they are mainly publicly traded equity funds and private equity, for which the total exposures are managed to Chubb's own investment guidelines.
- Currency risk – the majority of the assets and liabilities of the company were denominated in Renminbi, Hong Kong dollars ("HKD") and United States dollars ("USD"). CLICL's exposure to exchange risk arises primarily with respect to the Renminbi, the United States dollars and the Hong Kong dollars.
- Duration risk – the mean duration is an indicator of the sensitivity of the assets and liabilities to changes in the current interest rates. The mean duration of the liabilities is calculated on the sensitivity of reserve changes due to change in valuation interest rate. The mean duration of the assets is determined by projecting the expected cash flows from the existing assets. The Investment Committee of CLICL regularly monitors the duration risk.
- Counterparty risk – this is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where CLICL is exposed to counterparty risk are:
  - Counterparty risk with respect to fixed income securities held by the company;
  - Amount due from insurance agents and brokers;
  - Amount due from reinsurers; and
  - Reinsurers' share of insurance liabilities.
- Liquidity risk – CLICL is exposed to daily calls on its available cash resources mainly from claims arising from benefit payments. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Daily cash flow requirements are monitored to determine the minimum cash balance that should be held. CLICL manages the liquidity risk by monitoring the match of contractual cash inflows from the assets and expected cash outflows from insurance liabilities. Risks are measured using a variety of tools and techniques, e.g. actuarial and spreadsheet models. During the reporting period, no material change of the risks is observed.

4.51 CLICL uses a "Three Lines of Responsibilities" risk governance model which comprises day-to-day risk management and controls, risk management oversight and independent assurance.

- Initial and primary responsibility for risk control rests in the first line with CLICL during the course of daily risk-taking activities because many risk sources, especially insurance risk sources, are fundamentally owned by these bodies.
- The second line of responsibilities establishes and executes risk management and controls strategy, including monitoring their effectiveness, establishes overall risk appetite, including risk preferences, tolerances and limits against actual exposures and / or guidelines and escalates issues as appropriate to management.

- Finally, the third line represents the groups responsible for independent assurance over the management of risks, including challenge of the first and second lines.

4.52 CLICL controls risks in the organization through a variety of ways.

- Insurance risk – CLICL mitigates insurance risks by:
  - appropriately factoring the level of risk into the product pricing;
  - ensuring adequate reinsurance coverage is in place;
  - setting underwriting limits to enforce appropriate risk selection criteria; and
  - having set risk charge for unit-linked and universal life contracts based on the amount of death cover less the value of the units.
- Interest rate risk / duration risk – Interest rate swap is used to lengthen the asset duration to close the duration gap between assets and liabilities such that the surplus volatility can be reduced. In addition, the Investment Committee of CLICL regularly monitors the investment performance including assets and liabilities matching.
- Currency risk – Currency derivative arrangements including currency forwards are implemented by CLICL to reduce Hong Kong dollars exchange rate risk. The currency mismatch is monitored on a monthly basis. Since the Hong Kong dollars are currently pegged to the United States dollars, the risk that is relevant to CLICL is a re-pegging/de-pegging between the Hong Kong dollars to the United Stated dollars. As of 31 December 2022, there was no currency mismatch for all currencies.
- Credit risk – CLICL structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty.
- Liquidity risk – CLICL manages the liquidity risk by monitoring the match of contractual cash inflows from the assets and expected cash outflows from insurance liabilities.
- Equity risk – CLICL manages the equity risk by setting limits on its total exposure. CLICL allows up to 10% of the total assets to be invested into public and private equities.

Commercial Insurer's Solvency Self-Assessment

4.53 The Commercial Insurer's Solvency Self-Assessment ("CISSA") is a formal risk management process undertaken by CLICL to self-assess the adequacy of its risk management and the current and prospective solvency positions under normal and severe stress scenarios. This assessment incorporates CLICL's strategic business plan and its forward-looking risks against available and forecasted capital and liquidity resources. Key assessment criteria include the timely payment of claims and operating expenses, as well as the adequacy of capital to meet regulatory, rating agency and other commercial considerations including growth opportunities and capital management.

4.54 The CISSA is prepared by the risk management and actuarial functions and reviewed by Senior Management. The CISSA is then presented to the Board for their review. Management and the Board have regular dialogue about capital levels. Capital positions and forecasts are regularly reported into CLICL's parent company.

Operating Model

4.55 The Transferring Policies are currently being administered by the staff of CLICL. As and when the Proposed Schemes become effective, the Companies propose that these members of staff will cease to be employed by CLICL and immediately become employed by Chubb Life HK. There is no expectation of any changes in the levels of service for the Transferring Policies once these become administered by Chubb Life HK.

Distribution of Surplus and Dividends for Participating Policies

4.56 Policy for Managing Policyholders' Reasonable Expectations, dated February 2022, outlines the CLICL's considerations for policyholders' reasonable expectations (the "PRE"), and policies for determination of the non-guaranteed benefits (policyholder dividends/bonuses and other discretionary benefits). The process and governing principles will not change as a result of the Transfer.

4.57 The considerations for PRE are:

- Solvency – Consideration for the company's continuing ability to meet its statutory solvency requirements and desirable level of solvency margin.
- Communications – Communications with policyholders regarding non-guaranteed elements in a manner consistent with the company's actual practice.
- Consistency with market movements – Acknowledgement of a general expectation from policyholders that dividends are related to the returns on fixed interest instruments / equity market
- Equity between different stakeholders – This includes equity between groups of policyholders, between different generations of policyholders, and between policyholder and shareholder.

4.58 To determine the policy dividends/bonuses, CLICL has considered the past experience and future outlook of various factors such as:

- Investment returns: include both interest income and change in market value of the assets supporting the policies. The investment returns could also be subject to market risks such as change in interest rate, credit quality and default, equity price movement, as well as currency price of the backing assets against the policy currency etc.
- Claims: include the cost of providing death benefit and other insured benefits under the policies.
- Surrenders: include policy surrenders and withdrawals; and the corresponding impact on investments.
- Expenses: include both direct expenses which are directly related to the policies, such as commission, underwriting, issuance and premium collection expense etc, as well as indirect expenses such as general overhead costs allocated to the policies. Expense overrun compared with original pricing assumptions will not be reflected in dividends/bonuses.

4.59 Policy dividends/bonuses payable by the Company on participating policies are mainly annual dividends ("AD") and terminal dividends ("TD"). The remaining policies are reversionary bonuses ("RB") terminal bonuses ("TB") and special bonuses ("SB"). Overall philosophy in determining dividends and bonuses is to maintain a fair share of profits between the Company and policyholders as well as among different groups of policyholders. The dividend setting process is:

- The dividends/bonuses are paid from divisible surplus. The formula for sharing divisible surplus is determined when a contract is issued and the basis is continued at subsequent declarations.

- Investment returns are separately determined for HKD and USD policies. All participating products will be considered as a whole in determining return for bond and equity, while different asset allocations are used for specific products. No segregation by issue cohort is considered but the company reserves the right to segregate the asset returns by issue cohort when appropriate.

- For bonds, book yield is used for dividend declaration. Any realized gain/loss on bond will pass through in dividends in 5 years. For equities, dividends earned are reflected in current year dividend declaration. Any realized / unrealized capital gain / loss will pass through in dividends in 10 years although for some products with higher investment in equity has a faster passthrough.

- To maintain fairness between different product groups and different generations of products, policies are grouped by product series in determining final dividends/ bonuses. The company performs an annual dividend review and determines the amount distributed in the form of dividends or bonuses.

4.60 The Company has a standard approach to objectively determine dividend levels through a 1-factor formula (interest margin only) to 3-factor formula (interest margin, mortality margin and expense margin) by comparing the actual margin against the original pricing margins. The choice of 1- to 3- factor formula is driven by product design and the contractual terms of the policies. For the terminal dividend, the Company performs a sharing ratio analysis to ensure the fairness between the shareholder distributable earnings and policyholder terminal dividends. This analysis takes the ratio of the present value of current terminal dividends and present value of distributable earnings, after reflecting the latest outlook on investment, mortality, expense and surrender experiences. Additional considerations may be applied to smooth out the proposed dividend declaration, however the goal remains the same to treat policyholders fairly and deliver returns to shareholders by adhering to the dividend policy, meeting policyholder's expectations, and reflecting the actual experiences.

4.61 As part of the internal governance and control requirement, the Appointed Actuary of CLICL produces a dividend report summarizing the underlying methodology and outcomes of the dividend setting, which is reviewed by both local and Group oversight bodies, before the dividend declaration is presented to the Company's Board of Directors for the Board approval.

4.62 During the year ended 31 December 2022, approximately $10.0 million of dividend payments were declared and paid by CLICL to the participating policies. The projected dividend payments for CLICL in the coming three years are approximately $11.5 million in 2023, $12.7 million in 2024 and $13.3 million in 2025.

4.63 CLICL dividend recommendations have recently been approved with an effective date of 1 July 2023. The latest dividend recommendation is to keep the CLICL dividend scale unchanged for 2023, with an exception of a 25 basis points increase in dividend accumulation rate for Hong Kong dollar denominated policies.

Crediting Rate Setting for Universal Life Policies

4.64 For universal life policies, CLICL aims to ensure a fair determination of crediting interest from the underlying investment and among different groups of policyholders.

- Crediting interest rate is determined based on earned interest rate net of (i) provision for special interest, extra bonus and additional bonus and (ii) fixed spread as decided at pricing. Any excess and shortfall of declared crediting interest rate over affordable level as suggested by this mechanism will be maintained in the corresponding interest surplus pools. The interest surplus pool will be monitored through the actual earned yield and projected earned yield of latest assumption. The non-guaranteed charges will be reviewed if there is significant change in expense overrun position, policy termination experience or capital requirement compared to original pricing. Assets are notionally segregated in determining earned interest rate for the 4 generations of universal life series. All issue cohorts within the same product series will be aggregated into the corresponding investment pools unless there is significant change in current and/or long-term market environment and product designs.

- Book yield for bonds and dividend yield earned on equity are used to determine the Earned Interest Rate. Any realized gain/loss on bond will spread in at least 5 years and reflect in Earned Interest Rate. Unrealized gain/loss and realized gain/loss (if any) on equity will spread in 10 years and reflect in Earned Interest Rates.

4.65 Crediting interest rate and other non-guaranteed benefits (including extra bonus, special interest, etc.) are monitored monthly – earned interest rate, market investment yields, long-term outlook of economic environment and/or market comparison are presented in Product Development Committee ("PDC") meeting to confirm the crediting interest rate, extra bonus and special interest. Any change in crediting interest rate and other non-guaranteed benefits requires approval by PDC and will be submitted to the Board.

4.66 Dividend Review and Universal Life non-guaranteed benefits/charges monitoring will be submitted to the Board for approval. Written declaration on fair treatment to customers and potential conflict between policyholders and shareholders are managed will be signed-off by the Chairman of the Board, at least one Independent Non-Executive Director and the Appointed Actuary.

4.67 It is my understanding based on discussions with the Company's representatives that CLICL does not plan to change the existing dividend policy after the Transfer. Therefore, the policyholders' reasonable expectation will not be impacted by the Transfer.

Recent Significant Events

4.68 The Company has confirmed that CLICL has no material investment holding with Silicon Valley Bank and UBS acquisition of Credit Suisse, nor suffered adversely from other recent banking failures.

Known Imminent Changes that Could Affect the Consideration of Post-Transfer Impacts

4.69 We have not been made aware of any known imminent changes that could affect the impacts to CLICL following the Proposed Schemes.

Chubb Life HK

4.70 Chubb Life HK (then known as CIGNA Worldwide HK Life Company Limited and subsequently changing its name to CIGNA Worldwide Life Insurance Company Limited) was incorporated under the Laws of Hong Kong on 19 July 2005.

4.71 Chubb Life HK is authorized by the HKIA to carry on business under Class A (Life and annuity), C (Linked long term), D (Permanent health), and I (Retirement scheme management category III) of Long Term Business in or from Hong Kong.

4.72 After the completion of the Transfer, Chubb Life HK's combined product offering will include investment-linked insurance, traditional insurance, health insurance, accident insurance, and retirement products.

4.73 The current fund structure of Chubb Life HK long term business is summarised below:

- Life Insurance Fund consisted of
  - USD Non-Participating Life Fund (Class A, Class C General Account and Class D)
  - HKD Risk Life Fund (Class A)
  - HKD Risk Life Fund (Class I)
  - HKD Refund of Premium Life Fund (Class A)
  - HKD Refund of Premium Life Fund (Class D)
  - HKD Participating Fund (Class A)
- Linked Fund (Class C Separate Account); and
- Shareholders' Fund.

4.74 Chubb Life HK maintains fund segregation between the Life Insurance Fund and the Linked Fund, and the Shareholders' Fund is segregated from the Life Insurance Fund and Linked Fund. The table below summarizes Chubb Life HK's fund balances as of 31 December 2022. Total asset in Life Insurance Fund is USD 313 million, and surplus of the fund is USD 51 million. The Shareholders' Fund is USD 27 million.

Table 4.15 – Chubb Life HK's Fund Balances Before Transfer as of 31 December 2022
in USD Millions

	Chubb Life HK						
	Life Insurance Fund				Class C SA	Shareholders' Fund	Total
	Class A	Class C GA	Class D	Class I			
Asset	234	15	45	19	320	27	660
Liability	209	10	41	1	320	0	582
Surplus	25	5	3	17	0	27	78
1/6 Solvency Req	1	2	0	0			3
Surplus after 1/6 Solvency Req	24	4	3	17			

4.75 We received the inforce statistics as of 31 December 2022, shown as below.

Table 4.16 - Chubb Life HK Inforce Statistics as of 31 December 2022
in USD Millions (Except Number of Policies)

Type	Class	Number of Policies	Annualized Gross Premium	Statutory Reserve
Individual	A	45,699	49.8	149.4
	C	24,185	48.0	326.1

	D	4,675	2.9	32.7
Sub Total of Individual		**74,559**	**100.6**	**508.2**
Group	A	4	0.2	0.0
	I	93	1.6	0.4
Sub Total of Group		**97**	**1.8**	**0.4**
Total		**74,656**	**102.4**	**508.6**

4.76 Chubb Life HK portfolio consists of the following types of policies:

- **Participating policies**: This portfolio consists of participating endowment policies with reversionary bonuses. These policies were usually sold with levels of illustrated reversionary bonuses reflecting investment returns at the time of sale. As of 31 December 2022, there were 2,042 participating policies with gross policy reserves of $39 million. Dividends for 2022 in total were about $0.2 million.

- **Non-Participating policies**: The non-participating business includes endowment, refundable plans, term policies, unit-linked, and group life products. Chubb Life HK also issues rider contracts such as accident, hospitalization, critical illness, disability, and term life riders. There were 72,614 non-participating policies as of 31 December 2022, with gross policy reserves of $470 million.

Chubb Life HK Financial Position under HKIO

4.77 The following table summarizes the profit and loss account for Chubb Life HK for financial year as of 31 December 2022. The results reported are based on HKIO.

Table 4.17 - Statement of Income for Chubb Life HK as of 31 December 2022

in USD Millions	**Chubb Life HK**
Insurance premium revenue	114.5
Insurance premium ceded to reinsurers	(20.0)
Net insurance premium revenue	**94.5**
Fee income (net)	7.5
Net investment income	5.8
Net losses on financial assets at fair value through profit or loss	(82.7)
Management fees income	16.6
Other operating income	3.6
Net income	**45.3**
Change in insurance contract liabilities (net)	125.8
Change in investment contract liabilities	3.1
Insurance benefits (net)	(90.9)
Net insurance benefits and claims	**37.9**
Commission expense	(4.9)
Staff costs	(15.1)
Management expenses	(20.5)
Expenses	**(40.5)**
Profits before taxation	**42.7**

Income tax	(0.6)
Profit after taxation	**42.1**
Net loss on available-for-sale financial assets	(23.4)
Attributable to owner of Chubb Life HK	**18.7**

4.78 The following table summarizes the balance sheet for Chubb Life HK as of 31 December 2022, before the Proposed Schemes:

Table 4.18 - Balance Sheet for Chubb Life HK As of 31 December 2022 in USD Millions	**Chubb Life HK**
Financial assets	564.6
Cash and cash equivalent	55.1
Reinsurance contracts and other assets	41.0
Total assets	**660.6**
Insurance liabilities	528.4
Separate account (linked long term) liabilities	5.4
Insurance payables and other payables	47.1
Other liabilities	1.0
Total liabilities	**581.9**
Share capital	25.7
Other reserve	(16.6)
Retained earnings	69.7
Total equity	**78.7**
Total equity and liabilities	**660.6**

Chubb Life HK Solvency Position under HKIO Basis

4.79 Under section 8 of the Insurance Ordinance, an authorized insurer in Hong Kong, such as Chubb Life HK, is required to maintain an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer's assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating result or the value of its assets and liabilities. For an insurer carrying on long term Business only, the solvency margin is determined by the greater of:

- HK$2 million; or
- the amount specified under the Insurance (Margin of Solvency) Rules (which is generally 4% of the mathematical reserves and 0.3% of the capital at risk).

4.80 Hong Kong insurance regulations also requires an insurer carrying long term business to perform the DST under AGN7, passed by the ASHK. The insurer is required to conduct financial projection under a base scenario and some plausible adverse scenarios, including 6 prescribed scenarios per AGN7 and 6 additional plausible scenarios from HKIA. The insurer's financial condition is satisfactory if throughout the forecast period (the forecast period for a typical life insurer would be three financial years):

- Under the base scenario it meets the minimum regulatory capital requirements; and
- Under all plausible adverse scenarios, the assets exceed the liabilities.

4.81 Solvency margins are maintained by the Chubb Life HK in addition to the policy reserves in respect of the policies in-force. The solvency margin refers to the minimum Hong Kong statutory solvency requirements and the solvency ratio measures the solvency position of the company. The current minimum solvency ratio requirement for Hong Kong life insurers is 150%.

4.82 As of 31 December 2022, Chubb Life HK's required margin of solvency is about $19.7 million, and its solvency ratio is about 396%, which is above the statutory minimum solvency ratio of 150%, as shown in the table below. The minimum regulatory capital requirement is met under the base scenario and there is no planned capital injection from the next three years as the projected solvency level is in excess of 150%. Table below summarizes the projected solvency position of Chubb Life HK for the next three years under the base scenario per AGN7.

Table 4.19 - Current and Projected HKIO Solvency Positions for Chubb Life HK
Base Scenario

in USD Millions	2022	2023	2024	2025
Asset	659.9	682.6	699.1	720.3
Liability	581.9	587.9	587.3	591.8
Net asset (a)	78.0	94.6	111.8	128.5
Required solvency (b)	19.7	19.9	19.4	19.2
Solvency Ratio	396.4%	475.6%	576.2%	670.2%

4.83 Under all plausible adverse scenarios, Chubb Life HK is projected to maintain a solvency position above the minimum solvency ratio requirement over the next three years. Table below summarizes the solvency ratios for the next three financial years under all adverse scenarios.

Table 4.20 - Projected HKIO Solvency Ratios for Chubb Life HK
Additional Scenarios

	2023	2024	2025
Prescribed Scenario			
1. 15% increase in Mortality and Morbidity	452%	545%	633%
2. Lapse increased/decreased by 5%	458%	533%	598%
3. Interest rate drop of 30% & Equity drop by 25%	504%	610%	709%
4. Interest rate rise by max of (2%, 30% of plan) & Equity drop by 25%	501%	599%	689%
5. High sales growth – max of (30%, 150% of plan growth)	476%	576%	670%
6. Low sales growth – 80% of 2020; and 20% drop for years 2 and 3	476%	576%	670%
Plausible Scenario			
1. Pandemic outbreak (15% increase in Mortality and Morbidity, 15% increase in incidence rates for disability, accident and sickness, 5% deterioration in Lapse)	435%	504%	565%
2. One year short-term shock scenario associated with pandemic outbreak (15% increase in Mortality and Morbidity in year 1, 5% improvement in Lapse rate in year 1 and high growth rate (max of 30% or 150% of plan growth) in year 1)	442%	541%	637%
3. Operational incidents (30% drop in sales, additional 10% lapse for inforce policies & 20% increase in acquisition expense for 2 years)	486%	621%	703%
4. Counterparty default events (max of (0.5% of MV of investment grade bonds + 3% of MV of non-investment grade	453%	552%	645%

bonds, default of largest bond issuer), widening corporate spreads)			
5. Widening of Credit Spread (150bps credit spread widening on investment grade bonds and 250bps credit spread widening on non-investment grade or unrated bonds)	418%	516%	607%
6. Medium-term inflationary (4.0% increase in new money yield & 25% drop in equity)	488%	594%	677%

4.84 Based on the results above, Chubb Life HK meets all of the requirements per AGN7 as of 31 December 2022.

Chubb Life HK Solvency Position under HKRBC

4.85 Chubb Life HK conducts an annual ORSA supervisory report in compliance with GL21 ("Guideline on Enterprise Risk Management") issued by the HKIA. Under this assessment the solvency position is assessed using the proposed HKRBC basis rather that the current HKIO basis.

4.86 The objectives of the ORSA include:

- Enhance risk management function and practices that include formulation of appropriate business objectives.
- Further integrate risk management within the organization.
- Increase awareness and extend credibility with senior management and the Board of Directors.
- Facilitate the assessment of overall solvency needs and capital adequacy in order to enhance capital management.
- Satisfy regulatory requirements.

4.87 Chubb Life HK performs SST to ensure sufficient actions are available through recovery and continuity plans, where necessary. The stress scenarios include prescribed scenarios covering stresses in interest rates, credit spread widening, increase in mortality and morbidity, and change in business growth, and the insurer's own scenarios.

4.88 Capital management action plan is in place and will be taken, including but not limited to investment management actions and equity capital injection, within a reasonably short period of timeframe to maintain the healthiness of solvency ratio. Chubb Life HK's internal target capital ratio on HKRBC basis is 110%. The target capital was approved by the Chubb Life HK Board and will be used to populate the 2022 ORSA report. The ratio will be reviewed annually.

4.89 Chubb Life HK's HKRBC solvency ratio is 302% as of 31 December 2022, and it remains above its internal target capital ratio of 110% in the 3-year projection.

Table 4.21 – Current and Projected HKRBC Solvency Positions for Chubb Life HK
in USD Millions

	2022	2023	2024	2025
Available Capital	255	269	284	296
Required Capital	84	83	80	78
HKRBC Solvency Ratio	**302%**	**326%**	**354%**	**379%**

4.90 The following table shows the solvency positions as at 31 December 2022 to 2025. For any scenarios that result in Chubb Life HK's capital resources falling below its minimum regulatory capital requirement (i.e. 100%) and internal target capital (i.e. 110%), management actions would be taken to restore the stressed solvency position to be above its minimum regulatory capital level and internal target capital level within a reasonable timeframe. No management action is required to keep solvency ratio above minimum regulatory capital requirement (i.e. 100%) and internal target capital (i.e. 110%) based on the results below.

Table 4.22 – HKRBC Solvency Positions for Chubb Life HK
in USD Millions

	2022	2023	2024	2025
Base Scenarios	302%	326%	354%	379%
Prescribed Scenario 1 – Prolonged low interest rates scenario	290%	318%	347%	371%
Prescribed Scenario 2 – Rising interest rates scenario	310%	338%	366%	390%
Prescribed Scenario 3 – Pandemic scenario	288%	313%	342%	366%
Prescribed Scenario 4 – Financial crisis scenario	281%	-	-	-
Own Scenario 1 – Medium Term Inflationary	329%	357%	384%	405%
Own Scenario 2 – Lapse Up	344%	390%	424%	455%

Investment Management

4.91 Chubb Life HK's investment policy is to provide individual life and health insurance products in the Hong Kong Special Administrative Region of China. Most of the current product portfolio consists of participating whole life insurance policies with a high level of initial expenses but steady positive cash flows in future years until policy termination. In order to support the insurance operation, Chubb Life HK has to achieve desired profitability goals while maintaining competitive prices and sustainable guaranteed cash values and dividend scales.

4.92 Chubb Life HK's current investment strategy takes a prudent approach of focusing on investment grade fixed income securities and minimizing the asset liabilities mismatch. The Investment and Asset Liabilities Committee meet on a regular basis to determine the appropriateness of the investment and Asset and Liability Management ("ALM") strategy of Chubb Life HK given the existing risk environment.

Risk Management Process

4.93 The ERM framework is formulated to ensure that an appropriate environment exists to support the enterprise-wide management of risks. In particular, the ERM framework will ensure:

- Appropriate capabilities, commensurate with the nature and scale of the business, are available to support the risk management and decision-making process of Chubb Life HK;
- Sufficient processes and activities are in place to identify, quantify, monitor and mitigate key risks that impact Chubb Life HK in a timely manner;
- Compliance with regulatory requirements issued by relevant regulators of Chubb Life HK.

Risk Mitigation

4.94 According to its internal assessment, the material risks that Chubb Life HK is exposed to during financial year of 2022 are:

- Strategic risk – Strategic risks relating to strategic projects are actively managed using formal project work streams with dedicated Project Managers and sponsorship from Senior Leadership Team of Chubb Life HK. Regular status updates, and communications via the Project Steering Committees are key tools used by Chubb Life HK for managing strategic risks.
- Business environment risk – Business in Hong Kong continue to be impacted by the on-going Covid-19 pandemic. Competition remains high among insurance companies, and new business environment continues to be tough as companies continue to be cost conscious. The unfavorable business environment, together with new working arrangements and new regulatory requirements means that Chubb Life HK had to adapt to an environment with heightened business environment risks.
- Market financial risk – financial markets have experienced a level of volatility unseen since the 2008 financial crisis. A number of uncertainties continue to exist including, but not limited to:
  - The volatility in the interest rate environment;
  - The behavior of the credit spread;
  - The potential impacts of government actions to inflation, money supply, and the market conditions in general;
  - The level and sustainability of equity market growth;
- Liquidity risk – it represents the amount of cash Chubb Life HK has to meet its liabilities as they come due. In general, Chubb Life HK has maintained sufficient liquidity to meet all obligations as they come due.
- Insurance risk – it is the risk that insurer's policyholder obligations are greater than expected. Chubb Life HK will actively monitor the experience and will identify any changes or potential opportunities that may arise.
- Operation risk – it is the risk of financial loss from operational incidents. Controls and processes are in place to minimize disruptions from operations and operational incidents are escalated as appropriate.

4.95 Each of the material risks with respective risk indicators is reviewed and monitored at quarterly interval.

4.96 Chubb Life HK uses a "Three lines of Defence" risk management mechanism and continues to implement it to ensure that all activities can be carried out in a compliant manner:

- First line: Chubb Life HK's business units and supporting functions, which are responsible for identifying and managing risks directly, including the design and operation of controls.
- Second line: the groups that are responsible for providing guidance to the first line on expectations regarding risk management and to ensure appropriate actions are being taken by the first line to control their risk taking activities. Second line is also responsible

for activities covering internal governance. This line of defense monitors and facilitates the implementation of effective risk management practices by business functions and assists the Risk Owner in reporting adequate risk related information up and down the organization.

- Third line: this refers to the Internal Audit function of Chubb Life HK. It is the responsibility of the third line to identify deficiencies in risk processes, and provide independent monitoring of action progresses relating to these identified deficiencies. It should also provide recommendations, observations, and enhancement opportunities to both the first line and the second line.

Distribution of Surplus and Dividends

4.97 Chubb Life HK first launched its participating products with annual reversionary bonus in September 2005 and the products were closed to new business in 2016. These are limited pay participating endowment with reversionary bonus and additional benefits such as daily hospital cash, accidental death, critical illness, surgical expense benefits etc. All of the participating products offer reversionary bonus ("RB") which is payable upon death, surrender or maturity. Bonuses are expected to be declared in March every year.

4.98 The declared dividend amount is about $179,081 in 2022 and $110,803 in 2021 for participating products. Chubb Life HK's dividend recommendations have recently been approved with an effective date of 1 April 2023. The dividend recommendation is to increase the reversionary bonus rate for this year.

4.99 The reversionary bonus declaration process is conducted annually to determine the actual RB declarable for the year, ensuring fair treatment to customers and meeting policyholders' reasonable expectation. The process is carried out in accordance with the Guideline on Underwriting Long Term Insurance Business (Other Than Class C Business) ("GL16"); which is issued by the Hong Kong regulatory body, Insurance Authority. GL16 is effective since 1 January 2017 for all existing policies of current products.

4.100 According to GL16, it is Chubb Life HK's Appointed Actuary's duty to define the philosophy and assumptions for the determination of non-guaranteed benefits. Bonus declaration report should be submitted by the Appointed Actuary to the Board annually, recommending policyholder bonuses for the Board's approval. The Board, on the advice of the Appointed Actuary, is ultimately responsible for the interpretation of policyholders' reasonable expectation, and deciding the bonuses declaration. This should take into account the principle of fair treatment of customers, and the issue of equity between shareholders and policyholders.

4.101 Chubb Life HK has issued their Reversionary Bonus Declaration in April 2022. The document outlines the principles and methodology used for reversionary bonus calculation, key assumptions in the determination of reversionary bonus, as well as the recommendation of reversionary bonus scale for the current year. The proposed RB scale would be effective upon review and approval by the Board of Directors. After approval, the new RB scale may be applied to the inforce policies upon policy anniversary in the next twelve months from 1 April.

4.102 The participating fund, which is notionally segregated from the Chubb Life HK's Life Insurance fund, is set up for the participating products. Investment profits arising from the participating fund is shared 70% to policyholders and 30% to shareholders. Only investment profits are shared with policyholders. Policyholders are protected from the risk of insurance loss, expense and claim experience fluctuations; which are to be borne by Chubb Life HK.

Recent Significant Events and Known Imminent Changes

4.103 The acquisition of CIGNA in six Asia-Pacific markets was closed on 1 July 2022 by Chubb. The business acquired includes both life and non-life insurance companies that house the personal accident, supplemental health and life insurance business.

4.104 The Company has confirmed that Chubb Life HK has no material investment holding with Silicon Valley Bank and UBS acquisition of Credit Suisse, nor suffered adversely from other recent banking failure.

4.105 Aside from the matters set out above, we have not been made aware of any other known imminent changes that could affect the impacts to Chubb Life HK following the transfer of the Proposed Schemes.

Section 5: The Proposed Schemes

Summary of the Proposed Schemes

5.1 In addition to the Proposed Schemes, CLICL proposes to enter into a Business Transfer Agreement with Chubb Life HK on the Effective Date, which provides for the transfer of CLICL's business and all its other assets and liabilities to Chubb Life HK.

5.2 The Transfer will be effected through the Business Transfer Agreement and the Conveyance, Assumption and Assignment Agreement.

5.3 Following the acquisition by Chubb of the life and non-life insurance companies of CIGNA in six Asia Pacific markets, Chubb has determined to simplify the corporate structure and to provide more efficient services to its clients. The consolidation of Chubb Life HK's Long Term Business and CLICL's Long Term Business will combine their strengths to enhance the quality of Chubb Life HK's products and services offerings, improve Chubb Life HK's insurance services and operational capabilities, and ensure that Chubb Life HK's customers' interests are well protected. Chubb Life HK will continue to operate as a Chubb subsidiary and develop its life insurance offerings in Hong Kong.

5.4 After the Proposed Schemes become effective, CLICL will no longer write Long Term business and CLICL intends to hand back its license to HKIA and cease its registration in Hong Kong as well as surrender to the BMA its Class E long-term business licence. Chubb Life HK will carry on CLICL's Long Term Business as successor to CLICL. This is to achieve a single Chubb Group presence in Hong Kong.

5.5 I understand that the Transferring Portfolio will include:

- the entire liabilities of the Transferring Portfolio; and
- the entire assets of the Transferring Portfolio backing the CLICL liabilities and the Surplus Fund after Policy Liabilities.

5.6 The existing funds of Chubb Life HK will remain unchanged and managed separately after the Transfer. New funds will be created for assets and liabilities associated with the Transferring Portfolio:

- the assets and liabilities of the Class A Policies, Class C Policies (General Account) and Class D Policies from CLICL Life Fund are allocated to a newly created Chubb Life HK New Life Fund;
- the assets and liabilities of the Class C Policies (Separate Account) from CLICL Linked Fund are allocated to a newly created Chubb Life HK New Linked Fund; and
- Policies underwritten by Chubb Life HK on and after 1 July 2023 will be allocated to the Chubb Life HK New Life Fund or the Chubb Life HK New Linked Fund, respectively.
- The CLICL Surplus Fund after Policyholder Liabilities that is attributed to the shareholder of CLICL will be transferred to the Chubb Life HK Shareholders' Fund. Chubb Life HK Shareholders' Fund will consist of paid-in capital of Chubb Life HK, after considering the regulatory requirement of 1/6 solvency margin held in each class of business.
- The net asset value or amount of total assets after allowing for the policyholders' future insurance liabilities and other payables is attributable to the shareholders. The total amount of CLICL surplus fund of USD 391 million will be transferred to Chubb Life HK,

and together with USD 78 million of Chubb Life HK Shareholders' Fund, the surplus is a total of USD 469 million after the Transfer.

Table 5.1 – Chubb Life HK's Fund Balances Post Transfer As of 31 December 2022
in USD Millions

	Life Insurance Fund (Legacy)				Life Insurance Fund (New)			Class C SA (Legacy)	Class C SA (New)	Shareholders' Fund	Total
	Class A	Class C	Class D	Class I	Class A	Class C	Class D				
Asset	234	15	45	19	3,142	17	0	320	222	313	4,326
Liability	209	10	41	1	3,022	8	0	320	222	23	3,857
Surplus	25	5	3	17	120	9	0	0	0	289	469
1/6 Sol Requirement	1	2	0	0	20	1	0				24
Surplus after 1/6 Sol Req	24	4	3	17	99	9	0				

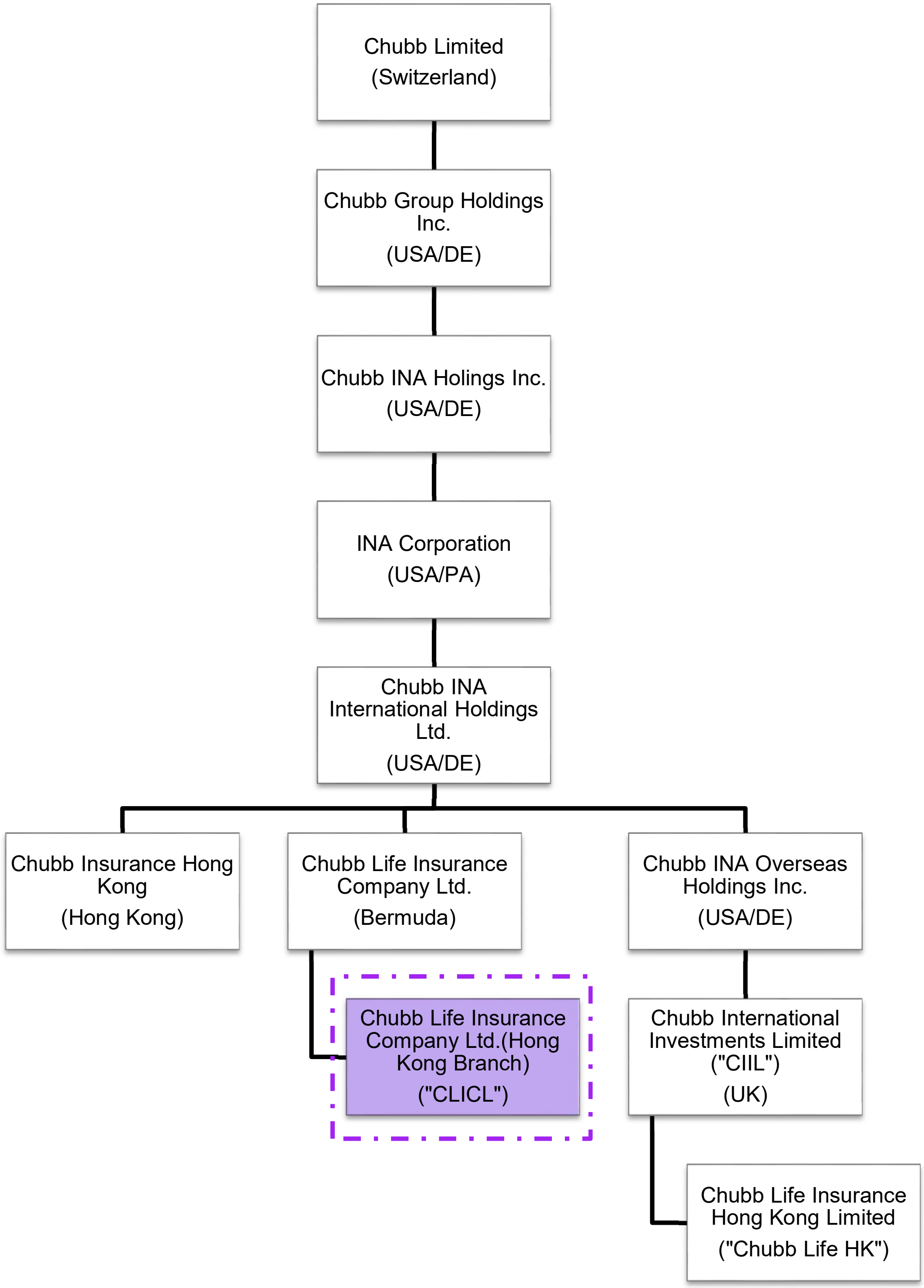
5.7 The Hong Kong Scheme will be subject to the sanction of the Hong Kong Court and the Bermuda Scheme will be subject to the sanction of the Bermuda Court.

5.8 The Transferring Policies that are Class C Policies are also investment-linked insurance schemes ("ILAS") and so are regulated by the SFC as collective investment schemes under the SFO. The change of the issuer of the Class C Policies from CLICL to Chubb Life HK therefore requires the approval of the SFC. In addition to CLICL and Chubb Life HK serving on the Insurance Authority the documents prescribed by section 24(3)(c) of the Insurance Ordinance and confirming that the Insurance Authority has no objection to the Scheme, the parties will provide the SFC with a copy of those documents in order to obtain its approval to the change in the issuer of the ILAS from CLICL to Chubb Life HK and in order for Chubb Life HK to operate those ILAS with effect from the Effective Date.

5.9 The Transfer will also require the approval of the BMA and the HKIA to confirm it has no objection to the Schemes. Under the Insurance Ordinance, CLICL and Chubb Life HK are required to make a public announcement of the application to the Hong Kong Court for the sanction of the Hong Kong Scheme by publishing a statutory notice to this affect in the Hong Kong Government Gazette and in one English and one Chinese newspaper. CLICL is also required to make a public announcement of the Bermuda Scheme by publishing a notice in the Bermuda Gazette.

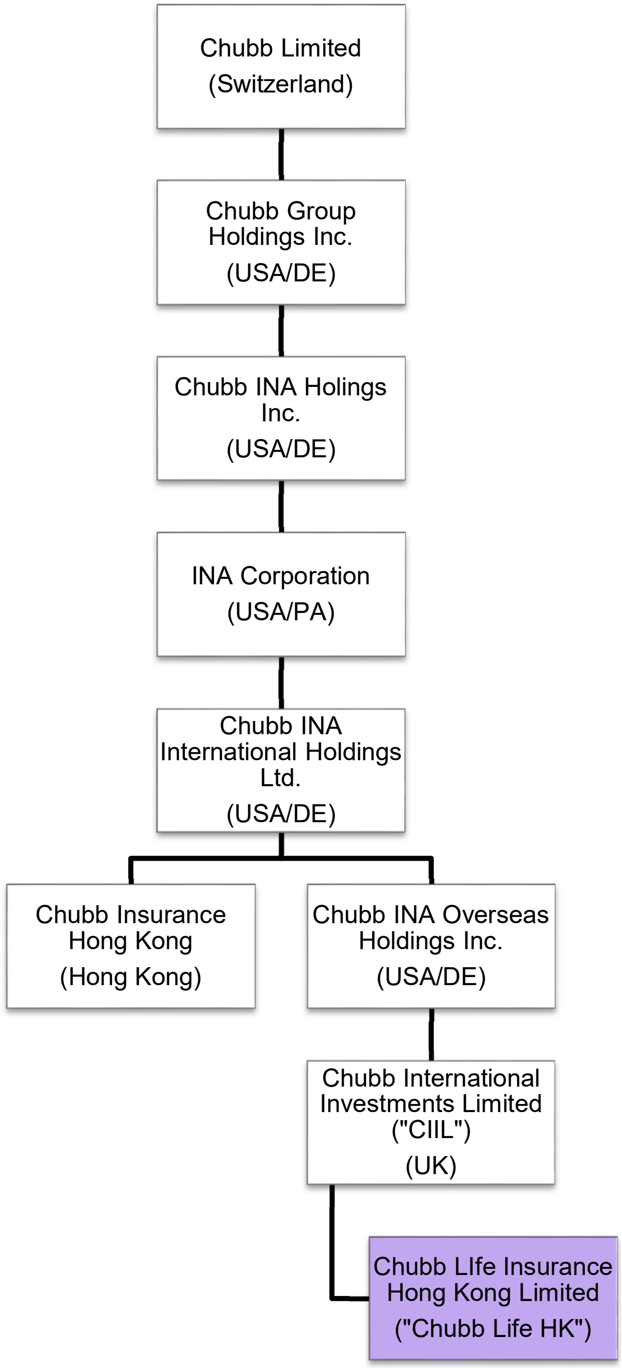
5.10 Figure 5.1 below provides an overview of the corporate structure before the Proposed Schemes highlighted in purple where the Transferring Portfolio sits within the Chubb Group before the Transfer. CLICL will apply to the HKIA to be de-authorized as an authorized insurer in Hong Kong and CLICL Bermuda will apply to the BMA to surrender its Class E long term business licence.

Figure 5.1 Corporate Structure before the Proposed Schemes



5.11 Figure 5.2 below provides an overview of the corporate structure and where the Transferring Portfolio will sit within the Chubb Group should the Proposed Schemes become effective. The figure illustrates that CLICL's Long Term Business will be transferred to Chubb Life HK.

Figure 5.2 Corporate Structure after the Proposed Schemes



5.12 Prior to 1 July 2023, Chubb Life HK will establish two new funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) on the Effective Date. The insurance funds will be:-

- a Chubb Life HK New Life Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits) and Class D Policies to be transferred from CLICL Life Fund; and

- a Chubb Life HK New Linked Fund for Class C Policies (Unit Linked Benefits) to be transferred from CLICL Linked Fund.

5.13 The fund structure of Chubb Life HK is summarized below

Chubb Life HK Legacy Life Fund	an Insurance Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits), Class D Policies and Class I Policies established and maintained by Chubb Life HK prior to the Effective Date and which will continue to be maintained by Chubb Life HK with effect from the Effective Date
Chubb Life HK Legacy Linked Fund	an Insurance Fund for Class C Policies (Unit Linked Benefits) established and maintained by Chubb Life HK as a Linked Fund prior to the Effective Date and which will continue to be maintained by Chubb Life HK with effect from the Effective Date
Chubb Life HK New Life Fund	an Insurance Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits), Class D Policies and Class I Policies to be called the "Chubb Life HK New Life Insurance Fund (Class A, Class C General Account and Class D)", to be established by Chubb Life HK, prior to 1 July 2023, as a separate Insurance Fund to the Chubb Life HK Legacy Life Fund and maintained by Chubb Life HK with effect from 1 July 2023
Chubb Life HK New Linked Fund	an Insurance Fund for Class C Policies (Unit Linked Benefits) to be called the "Chubb Life HK New Linked Fund (Class C Separate Account)", to be established by Chubb Life HK, prior to 1 July 2023, as a separate Linked Fund to the Chubb Life HK Legacy Fund and maintained by Chubb Life HK with effect from 1 July 2023

Product Changes

5.14 Under the Proposed Schemes, there will be no changes to the contractual benefits of either the Transferring Policyholders or the Chubb Life HK Policyholders, to the other rights and obligations of these policyholders of CLICL's or Chubb Life HK's Long Term Business.

5.15 I understand that the Companies don't plan on changes to any of their existing products required by relevant regulations or legislation as a consequence of the Transfer other than those specifically set out in the Proposed Schemes.

5.16 The underlying principles and methods to the discretionary aspects of the management of the participating and universal life policies will remain the same for each sub fund respectively before and after the Transfer. The Company's management team retains the right to change the underlying principles and methods in the future according to the economic or regulatory environment if necessary.

5.17 For non-guaranteed charges, post transfer the company has the rights to vary the charges whether or not the Proposed Schemes are approved. Any proposed change to the crediting interest rate, extra bonus and special interest rate will require approval by the company's Product Development Committee (PDC) and will be submitted to the company's Board for approval. I understand there is no plan to change the process and principles in determining the level of non-guaranteed charges as a consequence of the Proposed Schemes.

5.18 For renewable term, accident and health benefits, critical illness benefits, the Companies retain the rights to adjust premium rates as set out in the policy provisions. According to the Proposed Schemes, in accepting the Transferring Portfolio, Chubb Life HK will retain the same rights with respect to these policies. However, I understand there is no expectation that the Proposed Schemes will lead to a materially adverse exercise of discretion to the Transferring Portfolio.

Operational Changes

5.19 I understand that there will be no operational changes related to the Transferring Portfolio. The Transferring Portfolio will continue to be serviced by the same group of employees (now employees of CLICL but who are proposed to become employees of Chubb Life HK with effect from the Effective Date) who are currently servicing the Transferring Portfolio policies pursuant to the Policy Administration Agreement between the Companies, and thus will be familiar with the service and administration protocols and standards associated with the Transferring Policies.

Investment Management

5.20 Those assets that are currently under the management of external financial institutions or external investment managers, such investment agreements will be transferred from CLICL to Chubb Life HK under the same terms as part of the Transfer. While the financial institutions will retain the rights to review the respective asset allocation and investment decisions within the context of the investment policies, which were set by CLICL before the transfer date and will be adopted by Chubb Life Insurance Hong Kong thereafter, such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.

5.21 Both CLICL and Chubb Life HK investment strategies are jointly managed by Chubb Group’s and local teams. Investment strategy and the Strategic Asset Allocation (“SAA”) setting are liability-driven and the determining principles are unaffected by the Transfer for CLICL and Chubb Life HK. Daily portfolio operation of fixed income is managed by external asset managers, and equity/cash are by local investment team.

Taxation

5.22 CLICL has been calculating its tax liability based on its total assessable profits at the prescribed profit tax rate for Hong Kong at 16.5%. Assessable profit of the Class A long term business, and Class C long term business is assumed to be 5% of the net premiums written for the year. Assessable profit for Class D business is based on adjusted surplus. The tax regime calculation will remain the same before and after the Transfer.

Reinsurance

5.23 There will not be any material changes to the reinsurance agreement, neither internally nor externally as the Chubb Group insists on reinsurance being placed with its five preferred reinsurers: Swiss Re, Munich Re, RGA, Hannover Re and SCOR. Any changes to reinsurance agreement must undergo a strict process for approval by the Chubb Group. All reinsurance is subject to Chubb Life HK Reinsurance Buying Guidelines which are the same as CLICL’s Reinsurance Buying Guidelines and is regularly reviewed at quarterly CLICL Reinsurance Management Committee meetings which will be replicated for Chubb Life HK to oversee the implementation of the reinsurance strategy. The key objective is to manage insurance risk with reinsurance in accordance with enterprise risk appetite and earnings volatility and to optimize earnings with appropriate retention of insurance risk.

Corporate Governance

5.24 Upon completion of the Proposed Schemes, Chubb Life HK's Board of Directors will be ultimately responsible for the development and implementation of Chubb Life HK's corporate governance practices. The executives of Chubb Life HK will be responsible for oversight of all matters to the extent permitted and required by law and as appropriate and relevant to the respective business. The governance practices of CLICL and Chubb Life HK are aligned with many common features, in particular with regard to risk management, internal controls, internal audit and outsourcing. I understand that there are no changes intended that will materially affect the governance model.

5.25 The current auditor for both CLICL and Chubb Life HK is PricewaterhouseCoopers LLP ("PWC") and no change to this appointment is envisaged under the Proposed Schemes or notice of resignation has been tendered at the date of this Report.

Financial Aspects of the Proposed Schemes

5.26 Under the Proposed Schemes, all of CLICL's assets and liabilities of the existing CLICL will be transferred to Chubb Life HK.

5.27 Under the Proposed Schemes, CLICL will bear the cost and expenses related to my appointment as the Independent Expert, and the cost of implementation will be borne by Chubb Life HK. This includes but not limited to costs associated with preparation of the Schemes, obtaining Courts' sanctions, and other expenses associated with the Transfer, incurred before and after the transfer date. The cost will be expensed through Chubb Life HK and met by Chubb Life HK's Shareholders' fund. The total costs and expenses incurred are estimated to be USD 1 million.

5.28 The Companies have confirmed that the costs and expenses incurred in relation to the Transfer will not lead to an increase to the unit costs charged to Policyholders' benefits nor a reduction in the Policyholders' dividend level. The costs however will have an impact on the Company's solvency position in 2023. Given the estimated total costs and expenses, the impact should be less than one percent point on the solvency ratio. There should be no adverse impact to the Transferring Policyholders and the Chubb Life HK Policyholders.

5.29 Following the Transfer, CLICL will no longer hold any direct long term business.

5.30 After completion of the Transfer, the projected combined total assets will be $4,812 million as of year end 2023. Chubb Life HK's combined product offering thereafter will continue including retirement products and protection propositions, such as critical illness, voluntary health insurance scheme, and affluent medical.

Modifications to the Scheme

5.31 The Scheme cannot be altered unless it has the approval of the Hong Kong Court and is subject to any conditions which the Insurance Authority may require or the Hong Kong Court may impose.

Section 6: Impact of the Proposed Transfer on Financial Security

6.1 Transferring Policyholders have entered into long term insurance contracts, which provide specified contractual benefits that depend on the occurrence of future events. The Proposed Schemes have potential impact on the security of the Transferring Policyholders' contractual benefits and rights, which is the focus of my consideration in my report.

6.2 My focus is on the changes resulting from the Proposed Schemes, rather than the changes that may arise in the ordinary course of business. I have considered the current plan pertaining to the Transferring Portfolio, and any expected changes to the outlook of post-transfer if the Proposed Schemes are approved.

6.3 It is important to note that given the nature of insurance business, there is inherent uncertainty in this assessment and I have placed reliance on the information provided by the Companies in performing this assessment.

6.4 My opinions on the security of Transferring Policyholders' benefits are based on financial information as of 31 December 2022, and consideration of the impact of the Proposed Schemes due to take place effective at 12:00 a.m. Hong Kong Standard Time on 1 December 2023 or on such date mutually agreed by both CLICL and Chubb Life HK may decide, which date will be within 90 days after the date on which the Hong Kong Order is granted sanctioning the Hong Kong Scheme and subject to the Bermuda Court making Bermuda Order sanctioning the Bermuda Scheme.

6.5 For the Transferring Policyholders and the Chubb Life HK Policyholders, the security to their long term guarantees and contract obligations met by CLICL is measured by the excess assets in the sub funds plus the net shareholder assets. It is affected by the level of the reserves and the capital, together with additional security provided by the entity as a whole. Therefore, the solvency positions of the Companies prior to the Transfer and the expected overall solvency position of Chubb Life HK following implementation of the Proposed Schemes are part of my considerations in this report.

6.6 The assets and liabilities associated with the Transferring Portfolio will be allocated to the corresponding Chubb Life HK New Insurance Fund as described in 5.6, Chubb Life HK will establish new sub-funds for each class of business for the Transferring Policies for each class of business in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41). The new sub-funds will be managed separately from Chubb Life HK's existing legacy sub-funds.

6.7 I have summarized the internal target capital ratio in the table below for both Companies. The internal target capital ratio will be reviewed annually and to be approved by the Chubb Life HK Board after the Transfer.

Table 6.1 - Internal Target Capital Ratio on HKIO Basis	CLICL	Chubb Life HK
Internal target capital	200%	200%
HKIA required solvency for monitoring purpose	150%	150%
Minimum solvency requirement	100%	100%

Table 6.2 Internal Target Capital Ratio on HKRBC Basis	CLICL	Chubb Life HK
Internal target capital	110%	110%
Minimum solvency requirement	100%	100%

6.8 CLICL determines the target capital by setting buffer over the HKRBC minimum capital solvency ratio (i.e. 100%) to cover material risks that have not been considered in the HKRBC regulatory capital model. The key material risks that are not explicitly quantified under HKRBC are asset concentration risk and liquidity risk, which forms the basis for additional target capital in addition to the minimum solvency requirements. Given that CLICL asset concentration risk is less than 10% of the prescribed capital requirement ("PCR") as of 2022 year-end, and liquidity coverage ratios are well above the internal minimum required ratio, CLICL has set its internal target capital ratio to be 110%.

6.9 After the Acquisition, Chubb Life HK aligned their risk appetite statement ("RAS") with the Chubb group policies, and the Board Risk Committee ("BRC") was established in late 2022 to reassess its target capital methodology. In April 2023, Chubb Life HK Board of Directors approved a new internal target ratio of 110% based on its risk assessments. The decision is based on an assessment of the Chubb Life HK's asset concentration risk is less than 10% of its PCR, and the liquidity coverage ratio is well above the internal minimum required ratio.

6.10 Given that both Companies have the same internal target ratio before the Transfer, there should not be material adverse impact to the Transferring Policyholders and Chubb Life HK Policyholders after the Transfer.

6.11 In terms of access to capital, the same internal governance process will apply following Chubb Group review and approval process for injection from the Board of Chubb International Investments Limited ("CIIL") of UK, which will seek the approval from the Board of Chubb INA International Holdings Ltd. (USA/DE). Since the governance process required for approval for capital injection remains the same, I have no reason to expect the Proposed Schemes will have any material impact on the availability of capital to the Companies after implementation of the Proposed Schemes.

6.12 Details of Companies' solvency positions are included in Section 4. Below I set out a summary of key statistics for the Companies before the Transfer:

- Under the Hong Kong regime (HKIO), the solvency ratio for CLICL as of 31 December 2022 was 310%, with a required margin of solvency of $124.9 million. Under HKRBC, CLICL's solvency ratio is 313%.
- Under HKIO, the solvency ratio for Chubb Life HK as of 31 December 2022 was 396%, with a required margin of solvency of $19.7 million. Under HKRBC, Chubb Life HK's solvency ratio is 302%.
- The BSCR ratio for CLICL under the Bermuda EBS framework as of 31 December 2022 was 370%, with $818 million of capital and surplus and $221 million of Enhanced Capital Requirement.

6.13 The table below summarizes the projected solvency position on an HKIO basis for the next three (3) years for Chubb Life HK should the Proposed Schemes take effect.

Table 6.3 - Projected HKIO Solvency Position for Chubb Life HK After Transfer in USD Millions	2022	2023	2024	2025

Net Asset	466	594	725	835
Solvency Ratio	322%	385%	437%	454%

6.14 Based on the 31 December 2022 projection, the solvency ratio under HKIO basis stays above 200% of Chubb Life HK's internal capital target and 150% regulatory minimum capital requirement, and with an upward trending in the 3-year projection. However, the projection doesn't reflect any cost associated with the Transfer that is ultimately borne by Chubb Life HK. Based on the estimated cost of USD 1 million, it would impact the solvency ratio by less than 1% if it was reflected for year 2023. There is no cost associated with the Scheme beyond 2023. The impact is considered not material to Chubb Life HK's overall solvency position.

6.15 The table below summarizes the projected solvency position on an HKRBC basis for the next three (3) years for Chubb Life HK should the Proposed Schemes take effect. The combined solvency result is created by taking the sum of each capital component from the Companies as a simplification instead of a full capital calculation of the combined company by ignoring the diversification benefit. I consider the impact of this simplification is immaterial to the overall results. The projection doesn't reflect any cost associated with the Transfer that is ultimately borne by Chubb Life HK, which should cost less than 1% point on the solvency if it was reflected in 2023. There is no cost associated with the Scheme beyond 2023. The impact is considered not material to Chubb Life HK's overall solvency position.

Table 6.4 - Projected HKRBC Solvency Position for Chubb Life HK After Transfer
in USD Millions

	2022	2023	2024	2025
Available Capital	1,277.1	1,401.2	1,569.8	1,750.0
Required Capital	410.9	469.1	557.1	658.2
HKRBC Solvency Ratio	**311%**	**299%**	**282%**	**266%**

6.16 Based on the three-year projection after the Transfer, the solvency ratio of Chubb Life HK of the combined entities under HKRBC basis stays above 110% of Chubb Life HK's internal capital target and 100% regulatory minimum capital requirement.

6.17 The trend of the projection in Table 6.4 indicates that for Year 2023 and onwards, the Transferring Policyholders' solvency position (shown in Table 4.7) will improve and benefit from the increased solvency ratio after the Transfer under the newly combined entity. On the other hand, the Chubb Life HK existing policyholders' solvency position will experience a decrease in solvency ratio under the combined entity in comparison to their current solvency position (shown in Table 4.21). The reasons for the observing trends are:

- Chubb Life HK's assumes no new business in its existing policyholder's solvency ratio projection beyond 2023. The existing business will become closed blocks after the Transfer. Therefore, the projected increasing solvency position is a result of decreasing required capital base in relation to its available capital projection.

- The Transferring Portfolio is about three times larger than the Chubb Life HK Portfolio. Therefore, the solvency ratio on the combined basis is weighted by the relative size of the two Companies.

6.18 After the Transfer, both Chubb Life HK policyholders and the Transferring Policyholders will benefit from a greater level of total surplus level which gives more certainty and security to the protection of the Chubb Life HK Policyholders' benefits.

6.19 The table below summarizes the projected HKIO Solvency Ratio for the next three financial years under all prescribed and plausible adverse scenarios. Under all plausible adverse scenarios, assets exceed the liabilities for the next three financial years.

Table 6.5 – Projected HKIO Solvency Ratio for Chubb Life HK after Transfer Additional Scenarios	**2023**	**2024**	**2025**
Prescribed Scenario			
1. 15% increase in Mortality and Morbidity	339%	389%	406%
2. Lapse increased/decreased by 5%	374%	416%	425%
3. Interest rate drop of 30% & Equity drop by 25%	374%	402%	399%
4. Interest rate rise by max of (2%, 30% of plan) & Equity drop by 25%	195%	262%	307%
5. High sales growth – max of (30%, 150% of plan growth)	381%	428%	443%
6. Low sales growth – 80% of 2020; and 20% drop for years 2 and 3	390%	451%	476%
Plausible Scenario			
1. Pandemic outbreak (excess death of 0.75 per thousand and 10% increase in Morbidity in year 1, equity drop by 25%, lower sales)	336%	393%	413%
2. Medium-term inflationary (4.0% increase in new money yield & 25% drop in equity) **(Before Management Actions)**	63%	116%	181%
3. Medium-term inflationary (4.0% increase in new money yield & 25% drop in equity) **(After Management Actions)**	150%	196%	253%
4. Operational incidents	446%	561%	583%
5. Counterparty default events	262%	322%	354%
6. Widening of Credit Spread	189%	247%	282%

6.20 Based on the financial projections for the next three (3) years following the Transfer, Chubb Life HK's income will be sufficient to meet the increased capital demand for all scenarios except for the medium-term inflationary scenario, Chubb Life HK will require capital injection in order to maintain the regulatory required solvency ratio of 150% inclusive of the estimated cost of implementation for the Proposed Scheme.

6.21 The level of Chubb Life HK's financial flexibility before the Transfer will remain the same after the Transfer, as the requirements and decision process for capital injection will continue to apply as part of Chubb Group internal control and governance, and subject to the Board approval from Chubb INA International Holdings Ltd. (USA/DE).

6.22 The table below shows the combined HKRBC solvency position as at 31 December 2022, 2023, 2024 and 2025. The stressed solvency position is above minimum regulatory capital level and Chubb Life HK's internal target capital, therefore no management action is required.

Table 6.6 – HKRBC Solvency Positions for Chubb Life HK after Transfer Solvency Ratio	**2022**	**2023**	**2024**	**2025**
Base Scenarios	311%	299%	282%	266%
Prescribed Scenario 1 – Prolonged low interest rates scenario	198%	179%	167%	158%
Prescribed Scenario 2 – Rising interest rates scenario	273%	268%	280%	286%

Prescribed Scenario 3 – Pandemic scenario	198%	171%	165%	159%
Prescribed Scenario 4 – Financial crisis scenario	139%	-	-	-
Own Scenario 1 – Medium-term Inflationary	265%	262%	273%	284%
Own Scenario 2 – Medium-term Deflationary	218%	197%	184%	169%

Section 7: Impact of the Proposed Transfer – Other Considerations on Transferring Policyholders

7.1 My considerations for the impact of the financial security as a result of the Transfer is detailed in Section 6. In this section, my considerations are whether the Proposed Schemes properly and adequately safeguards the contractual benefits and other rights of the Transferring Policyholders, and whether there is any material adverse impact on them.

7.2 I have considered with respect to the participating Transferring Policyholders of CLICL, whether their reasonable benefit expectations in relation to future bonuses, dividends or surplus distributions will be adversely affected if the Proposed Schemes are implemented. I have also considered with respect to non-participating Transferring Policyholders whether the security to the long term guarantees and obligations by CLICL will be adversely impacted.

7.3 For both participating and universal life business, CLICL's internal governance policy requires written declaration on fair treatment to customers and potential conflict between policyholders and shareholders are signed-off by the Chairman of the Board, at least one Independent Non-Executive Director, and the Appointed Actuary.

7.4 My opinions on the security of Transferring Policyholders' benefits are based on financial information as of 31 December 2022, and consideration of the impact of the Proposed Schemes due to take place effective at 12:00 a.m. Hong Kong Standard Time on 1 December 2023 or on such date mutually agreed by both CLICL and Chubb Life HK may decide, which date will be within 90 days after the date on which the Hong Kong Order is granted sanctioning the Hong Kong Scheme and subject to the Bermuda Court making Bermuda Order sanctioning the Bermuda Scheme.

Product Summary

7.5 CLICL in-force portfolio is primarily composed of the following products:

7.6 Endowment – CLICL's endowment products consist of non-participating short pay endowments and participating endowments with non-guaranteed benefits. The benefit term is typically defined as a specific term in years. Endowment products provide a combination of death benefit and maturity benefit.

7.7 Whole life – CLICL's whole life products are typically with limited pay premium payment terms or single premium and can be either non-participating products or participating products with non-guaranteed benefits. Some of the products provide critical illness benefit or pay additional coupon payments.

7.8 Annuities – The annuity product category includes participating and non-participating annuities, as well as the qualifying deferred annuity policies which are limited pay premium deferred annuities providing annuity benefits after an accumulation period.

7.9 Universal Life – CLICL's universal life products are typically whole of life product with death benefit coverage which will periodically credit interest to the account value. Some of the products provide Extra Bonus (EB)/ Special Interest (SI)/ Additional Bonus (AB).

7.10 Investment Linked Assurance Scheme – CLICL's Investment Linked Assurance Scheme products are typically with regular premium payment terms or single premium and can provide death, surrender and maturity benefits.

7.11 Others – CLICL has other non-participating protection products such as term, critical illness, medical, Voluntary Health Insurance Scheme (VHIS), personal accident and refund of premium products.

7.12 CLICL does not plan to change the underlying methodology and principles of setting the policy loan rate and deposit rate. Current rates are:

- Policy loan rate: 7.00%
- Deposit rate: 4.00% (USD) and 2.75 – 3.50% (HKD)

Policy Reserves

7.13 Both Companies have been reporting under the Hong Kong regulatory regime, with PricewaterhouseCoopers LLP ("PWC") the external auditors certifying the financial statements prepared in accordance with the Ordinance and the Appointed Actuary issuing the Actuary's certificate as required by the Ordinance.

7.14 With regard to the valuation standards, both Companies have set up reserves using methods and valuation bases that satisfy the Hong Kong regulatory standards.

- a net premium valuation approach for the statutory valuation of its long term business. The liability is floored at surrender value at the policy level; and
- a valuation interest rate determined at a product group level, reflecting the yield curve as at the valuation date, expected future reinvestment yields and the yield earned on existing assets.

7.15 I have not independently reviewed the reserve calculations of the Companies. I explicitly rely on the Appointed Actuary of both Companies that the reserves are appropriate and accurate. The Appointed Actuary and PWC have both certified compliance with Hong Kong Insurance Ordinance (CAP 41E – Insurance (Determination of Long Term Liabilities) Rules). There is no change to the reserving methods and valuations bases according to the Proposed Schemes. After the Transfer, the reserving methods and valuation bases of the Transferring Portfolio will be decided by the Appointed Actuary of Chubb Life HK, subject to the same regulatory requirements.

7.16 Given the approach adopted in determining the valuation methodology and assumptions are largely similar across the Companies, both are subject to HK regulatory requirements, I do not believe there will be an adverse impact on the financial security of the Transferring Policyholders in this regard.

Contractual Benefits and Other Rights

7.17 According to the Proposed Schemes, there is no intended change to the terms and structures that define the existing contractual benefits and other rights of the Transferring Policyholders.

7.18 Chubb Life HK has explained to me their commitment to continue servicing the Transferring Policyholders on the same contractual terms after the Transfer.

7.19 Based on the above, I have concluded that the Proposed Schemes will not adversely affect the contractual benefits and other rights of Transferring Policyholders in any material way.

Reasonable Benefit Expectations

Participating Business

7.20 Over 60% of the business on statutory reserve basis in CLICL is participating business. Therefore, I must consider the likely effects of the Schemes on the reasonable expectations of the policyholders. Most of the dividends and bonuses are annual dividends and terminal dividends, and the remaining are reversionary bonuses, terminal bonuses and special bonuses.

7.21 For participating Transferring Policyholders, as surplus from the business is being shared between those policyholders and shareholders, reasonable expectation is assessed based on the following:

- Equity between shareholders and policyholders and between different groups of policyholders;
- The reasonable expectation of policyholders established through previous communications with policyholders, including any illustrations provided either at point of sale and/or subsequently; and
- Any contractual requirements set out in the marketing literature or policy documentation.

7.22 I have reviewed the document Managing Policyholders' Reasonable Expectations dated February 2022 in detail, that outlines the CLICL's considerations for managing policyholders' reasonable expectations and determining dividends, bonuses and other discretionary benefits. I have summarized the considerations in Section 4.

7.23 Based on the 2022 dividend review, I understand CLICL has a standard approach to objectively determine dividend levels through a 1-factor formula (interest margin only) to 3-factor formula (interest margin, mortality margin and expense margin) by comparing the actual margin against the original pricing margins. The choice of 1- to 3- factor formula is driven by product design. For the terminal dividend, the Company performs a sharing ratio analysis to ensure the fairness between the shareholder distributable earnings and policyholder terminal dividends. This analysis takes the ratio of the present value of current terminal dividends and present value of distributable earnings, after reflecting the latest outlook on investment, mortality, expense and surrender experiences.

7.24 Additional considerations may be applied to smooth out the proposed dividend declaration, however the goal remain the same to treat policyholders fairly and deliver returns to shareholders by adhering to the dividend policy, meeting policyholder's expectations, and reflecting the actual experiences.

7.25 I understand there is no change expected to the principles or practice by which the participating Transferring Policies are managed, including the management of any discretionary aspects of the relevant participating fund. The actuary of Chubb Life HK appointed under section 15(1)(b) of the Insurance Ordinance will continue to conduct necessary investigations for the business accordingly before and after the Transfer.

7.26 After the Proposed Schemes, I understand the dividend recommendations will continue to be assessed according to the existing Policy Dividend Declaration Policy for the participating Transferring Policies separately. There is no material change to the Policy Dividend Declaration Policy as a result of the Proposed Schemes, and both Companies have confirmed that there is no change to the rules and management of bonus distribution for the Transferring Policies in 2023.

7.27 The dividend setting and declaration will subject to the same internal review and control process. The Appointed Actuary will review the historical financial performance, policyholders' reasonable expectations, recent interest rate environment and future investment outlook, and actions taken in the past, and produce the dividend declaration report for the Board of Directors before the dividend declaration can be approved by the Board.

7.28 There will be no impact on the Transferring Policyholders, as prior to 1 July 2023, Chubb Life HK will establish new sub funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) on the Effective Date. The CLICL participating policies will be transferred from CLICL Life Fund to the newly created Chubb Life HK New Life Fund, that is managed separately from the existing Chubb Life HK Legacy Life Fund.

7.29 Even though there is no plan of change at this moment, if the Companies intend to revise the policyholder dividend policy based on its right which exists whether or not the Scheme proceeds, the Companies will have to comply with Guideline on Underwriting Long Term Insurance Business (other than Class C Business) ("GL16") in respect of any changes to the existing principles and methods for the determination of non-guaranteed dividends and other discretionary benefits of the Transferring Policies. In particular, with respect to the GL16 requirement of maintaining the consistency in dividend declaration mechanism between pricing stage and throughout the policy life, Companies will need to demonstrate how consistency can be fulfilled should the policyholder's dividend mechanism be changed materially.

7.30 As such, I have no reason to believe the Proposed Schemes will lead to a materially adverse impact on the determination of discretionary benefits in relation to the participating policyholders of the Transferring Portfolio.

Universal Life Business

7.31 For universal life products, reasonable expectations consideration include the crediting rate setting, payment of policy benefits when due, and the ongoing management of the policies being consistent with the policyholders' understanding of the policy terms and conditions.

7.32 There will be no impact on the Transferring Policyholders, as prior to 1 July 2023, Chubb Life HK will establish new sub funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) on the Effective Date. The CLICL universal life policies will be transferred from CLICL Life Fund to the newly created Chubb Life HK New Life Fund, which will be managed separately from the existing Chubb Life HK Legacy Life Fund.

7.33 For crediting rate setting, I have done a detailed review of CLICL's rate setting policy, which is summarized in Crediting Rate Setting for Universal Life Policies in Section 4. CLICL aims to determine crediting interest from the underlying investments and allocate adequately to different groups of policyholders.

7.34 Crediting interest rate and other non-guaranteed benefits (including extra bonus, special interest, etc.) are monitored monthly and presented at the Product Development Committee ("PDC") meeting. All changes to crediting interest rate and other non-guaranteed benefits requires approval by PDC first before being submitted to the Board for approval.

7.35 I understand, from discussions with the Companies, that there are no planned changes to the crediting rate setting methodology and its governance structure. There is no change in the Proposed Schemes to the product or the premium rates for the Transferring Policies.

7.36 Based on the above, I conclude that the reasonable expectations with respect to universal life policies will not be materially adversely affected by the Proposed Schemes.

Other Non-participating Business (Exclude Universal Life)

7.37 For non-participating business other than UL, the reasonable benefit expectations are to receive their long term guarantees and contractual obligations on a timely basis, which is tied to the financial security of the Company.

7.38 I understand from discussions with CLICL and from the Proposed Schemes, there is no change to the contractual terms and other rights after the Transfer. Valid claims will continue to be paid when due in the same manner as before the Transfer.

7.39 The assets backing the non-participating insurance liabilities of Transferring Policyholders will be segregated from the Chubb Life HK Policyholders.

7.40 Based on the above, I conclude that the reasonable expectations of both participating and non-participating CLICL policies will not be materially adversely affected by the Proposed Schemes.

Financial Security

7.41 For the Transferring Policyholders, the security to their long term guarantees and contract obligations met by CLICL is measured by the excess assets in the sub funds plus the net shareholder assets. It is affected by the level of the reserves and the capital, together with additional security provided by the entity as a whole. Therefore, the solvency positions of the Companies prior to the Transfer and the expected overall solvency position of Chubb Life HK following implementation of the Proposed Schemes are key indicators to the financial security of the policyholders.

7.42 The details of the projected solvency ratios for the next 3 years on the combined entity are in Section 6, and the ratios will remain above CLICL's internal target ratio on both HKIO and HKRBC basis. Based on the baseline and sensitivities performed on the solvency ratios, I conclude the financial securities of the Transferring Policyholders will not be materially adversely affected by the Proposed Schemes.

Expected Levels of Customer Services

7.43 Transferring Policyholders will expect to receive a certain level of client service, such as when performing policy inquiries, making policy alterations, receiving notifications or making claims under the policy.

7.44 Chubb Life HK confirms to me that there is no expected change in levels of service and business practices with respect to the management of the Transferring Policies as the support will be provided by the same personnel that currently handle these operations for both CLICL and Chubb Life HK under the Policy Administration Agreement. These employees will cease to be employed by CLICL and will be offered employment with Chubb Life HK and their terms of employment of the employees that support the operations of CLICL and Chubb Life HK will remain unchanged.

7.45 Based on the above, I consider that the Proposed Schemes will have no material effect on the Transferring Policyholders in respect of matters such as response times to customer enquiries, claim settlement, investment management, capital management, underwriting, risk management and expense levels in relation to how they may affect the security of their contractual rights of level of services provided.

Other Considerations

Investment Management

7.46 I have reviewed CLICL's current investment management. My review is summarized in Section 5.

7.47 Both CLICL and Chubb Life HK investment strategies are jointly managed by Chubb Group and local teams. Investment activities within CLICL are governed by investment mandates, which are approved by the Asset Liability Management Investment Committee. Fixed income portfolios are managed by external asset managers, whose services are bounded by Investment Management Agreement. Equity investments and cash are managed internally by Investment Management.

7.48 I understand the current policy, management and governance structure will remain unchanged after the Transfer according to the Proposed Schemes. The investment strategy and the Strategic Asset Allocation ("SAA") setting are liability-driven and the determining principles are unaffected by the Transfer for CLICL and Chubb Life HK. The mandates remain the same with regard to control and diversification of risk exposures, maintain adequate liquidity, and manage assets with respect to the liability profile. In addition, the investment policies and asset allocation for the Transferring Business will be maintained separately in the newly created sub funds. Therefore, I have no reason to believe the Proposed Schemes will have a material adverse impact on the Transferring Policyholders.

Risk Exposures and Risk Management

7.49 I have reviewed CLICL's solvency position under the Hong Kong RBC Basis, the ORSA report, and the SST results as at 31 December 2022 in order to understand the risk profiles, and the potential change in risk exposures to the Transferring Policyholders as a result of the Transfer. My summary of the review is in Section 4.

7.50 I have reviewed CLICL's present risk management process, risk framework, and risk mitigation in events that CLICL is subject to potential downside. My summary of the review is in paragraph 4.50.

7.51 The Company has confirmed the derivatives used to mitigate interest rate and currency risks will be part of the Transferring Business, and the derivatives will be transferred as part of the asset from the CLICL Life Fund to the newly created Chubb Life HK New Life Fund. The same risk management and monitoring process that applies before the Transfer will continue to apply after the Transfer.

7.52 Based on my reviews, I have not identified any areas where additional risk exposures resulting from the implementation of the Scheme is likely to impact the financial security of the Transferring Policyholders.

Taxation

7.53 Chubb Life HK calculates its tax liability based on its total assessable profits at the prescribed profit tax rate for Hong Kong at 16.5%. Assessable profits of the Class A long term business and Class C long term business is assumed to be 5% of the net premiums written for the year. The assessable profits for Class D business and Class I Retirement scheme management category III are based on adjusted surplus. The tax regime applied to the Transferring Business will remain unchanged after the Transfer. Therefore, I have no reason to believe there will be a materially adverse impact on the Transferring Policyholders.

Summary

7.54 In summary, I have concluded that in relation to Transferring Policyholders:

- Total reserves for the Transferring Portfolio will be calculated using established methods and valuation bases that satisfy the Hong Kong regulatory standards and the underlying methodology is not expected to be changed.

- The solvency ratio for the Transferring Business will remain almost unchanged, since the CLICL block is larger than the Chubb HK Life portfolio.
- The DST analysis has demonstrated the solvency positions and the remediation strategy of each Company before the Transfer as outlined in Section 4 are above regulatory requirement.
- Based on the various documents provided to me, the Transferring Policyholders will continue to be protected. All aspects related to capital, investment and risk management are not materially adversely impacted as a result of the Proposed Schemes.
- Based on my assessment, the Scheme is unlikely to expose the Transferring Policyholders to new risks of significance.

Section 8: Impact on Chubb Life HK Policyholders

8.1 My considerations for the impact of the financial security as a result of the Transfer is detailed in Section 6. In this section, my considerations are whether the Proposed Schemes properly and adequately safeguards the contractual benefits and rights of the Chubb Life HK Policyholders based on financial information as of 31 December 2022, and consideration of the impact of the Proposed Schemes taking place on the Effective Date.

8.2 Prior to 1 July 2023, Chubb Life HK will establish two new funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) on the Effective Date. The insurance funds will be:-

- a Chubb Life HK New Life Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits) and Class D Policies to be transferred from CLICL Life Fund; and

- a Chubb Life HK New Linked Fund for Class C Policies (Unit Linked Benefits) to be transferred from CLICL Linked Fund.

8.3 The fund structure of Chubb Life HK is summarized below. Chubb Life HK will manage its existing policyholders in the Legacy Life Fund and Legacy Linked Fund, and manage them separately from the Transferring Policyholders.

Chubb Life HK Legacy Life Fund	an Insurance Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits), Class D Policies and Class I Policies established and maintained by Chubb Life HK prior to the Effective Date and which will continue to be maintained by Chubb Life HK with effect from the Effective Date
Chubb Life HK Legacy Linked Fund	an Insurance Fund for Class C Policies (Unit Linked Benefits) established and maintained by Chubb Life HK as a Linked Fund prior to the Effective Date and which will continue to be maintained by Chubb Life HK with effect from the Effective Date
Chubb Life HK New Life Fund	an Insurance Fund for Class A Policies, Class C Policies (non-Unit Linked Benefits), Class D Policies and Class I Policies to be called the “Chubb Life HK New Life Insurance Fund (Class A, Class C General Account and Class D)”, to be established by Chubb Life HK prior to 1 July 2023, as a separate Insurance Fund to the Chubb Life HK Legacy Fund and maintained by Chubb Life HK with effect from 1 July 2023
Chubb Life HK New Linked Fund	an Insurance Fund for Class C Policies (Unit Linked Benefits) to be called the “Chubb Life HK New Linked Fund (Class C Separate Account)”, to be established by Chubb Life HK, prior to 1 July 2023, as a separate Linked Fund and maintained by Chubb Life HK with effect from 1 July 2023

Product Summary

8.4 Chubb Life HK in-force portfolio is primarily composed of the following products:

8.5 Endowment – Chubb Life HK's endowment products consist of non-participating short pay endowments and participating endowments with non-guaranteed benefits. The benefit term is typically defined as a specific term in years. Endowment products provide a combination of death benefit and maturity benefit.

8.6 Refund of Premium – The premium refund product category includes a clause that grants the beneficiaries a refund to the total amount of premiums paid to date. A refund of the premiums paid can be granted if an insured event before that term runs out or if the coverage is voluntarily terminated.

8.7 Investment Linked Assurance Scheme – Chubb Life HK's Investment Linked Assurance Scheme products are typically with regular premium payment terms or single premium and can provide death, surrender and maturity benefits.

8.8 Others – Chubb Life HK has other non-participating protection products such as term, critical illness, medical, VHIS and Group Life products.

8.9 Currently, Chubb Life HK has ceased the offering of the above products while CLICL continues to offer its products under 30 June 2023. Starting 1 July 2023, Chubb Life HK will start offering former CLICL products which will be issued under the company name Chubb Life HK and which will be identical to the products currently offered by CLICL under 30 June 2023. With effect from 1 July 2023, CLICL will cease to receive new policy applications. All policies underwritten by Chubb Life HK on and after 1 July 2023 will be allocated to the Chubb Life HK New Life Fund or the Chubb Life HK New Linked Fund respectively.

8.10 Chubb Life HK does not have products that offer policy loan nor deposit rate.

Policy Reserves

8.11 Chubb Life HK is reporting under the Hong Kong regulatory regime, with the Appointed Actuary and the external auditor certifying compliance with the Hong Kong Insurance Ordinance (CAP 41).

8.12 With regard to the valuation standards, Chubb Life HK has set up reserves for the existing Chubb Life HK policies using methods and valuation bases that satisfy the Hong Kong regulatory standards. In particular, Chubb Life HK uses:

- a net premium valuation approach for the statutory valuation of its long term business. The liability is floored at surrender value at the policy level; and

- a valuation interest rate determined at a product group level, reflecting the yield curve as at the valuation date, expected future reinvestment yields and the yield earned on existing assets.

8.13 After the Scheme is implemented, the procedures will remain the same such that each year the Appointed Actuary of Chubb Life HK will be responsible for the reserving method and valuation bases. As there is no change in procedure in determining the valuation methodology and assumptions have been proposed because of the Proposed Scheme, I have no reason to believe the Proposed Scheme will lead to a materially adverse impact on the financial security of the existing Chubb Life HK policyholders.

Contractual Benefits and Other Rights

8.14 According to the Proposed Schemes, there is no intended change to the terms and structures that define the existing contractual benefits and other rights of the Chubb Life HK Policyholders.

8.15 Chubb Life HK has explained to me their commitment to continue servicing their existing policyholders on the same contractual terms after the Transfer.

8.16 Chubb Life HK will establish two new funds for the assets and liabilities to be transferred from CLICL in accordance with section 22 of the Hong Kong Insurance Ordinance (Chapter 41) and continue managing the existing Legacy Life Fund and Legacy Linked Fund separately.

8.17 Based on the above, I have concluded that the Proposed Schemes will not adversely affect the contractual benefits and other rights of Chubb Life HK Policyholders in any material way.

Reasonable Benefit Expectations

Participating Business

8.18 Over 20% of the business on statutory reserve basis of the existing Chubb Life HK policies is participating business. For the participating business, I have to consider the likely effects of the Schemes on the reasonable expectations of the participating policyholders.

8.19 Chubb Life HK only offers reversionary bonus. I have reviewed in detail Chubb Life HK's Reversionary Bonus Declaration issued on April 2022. I understand it is Chubb Life HK's Appointed Actuary's duty to define the philosophy and assumptions for the determination of non-guaranteed benefits, and the Board, on the advice of the Appointed Actuary, is ultimately responsible for the interpretation of policyholders' reasonable expectation and deciding the bonuses declaration.

8.20 The Company has confirmed to me that there is no material change to the Reversionary Bonus Declaration Policy for 2023 as a result of the Proposed Schemes, and that there are no changes intended to its management and governance structure it currently has in place.

8.21 The Companies has informed me that after the Proposed Schemes, there will not be any significant change to the existing principles and method for the determination of non-guaranteed bonuses and other discretionary benefits with respect to the participating policies. The Companies will review the historical financial performance, policyholders' reasonable expectations, recent interest environment and future investment outlook, and actions taken in the past into considerations.

8.22 Given the assets backing the participating insurance liabilities of existing Chubb Life HK policyholders will be segregated from the CLICL Transferring Policies, I do not expect the Transfer to have any material impact on the assets backing the liabilities in relation to the existing Chubb Life HK policies.

8.23 The participating products offered by Chubb Life HK starting 1 July 2023 will be identical to the products currently sold by CLICL, and policies will be allocated to the Chubb Life HK New Life Fund. All contractual terms, including the dividend scale that has been approved for 2023, will apply to the new policies underwritten by Chubb Life HK on and after 1 July 2023. Therefore, I have no reason to believe the reasonable benefit expectation of policyholders purchasing Chubb Life HK participating products after 1 July 2023 will be adversely affected after pooling with Transferring policies from CLICL in the same fund.

8.24 Given that it will be of the same products for the newly issued Chubb Life HK policies and Transferring Policies, I do not expect the Transfer to have any material impact on the assets backing the liabilities in relation to the newly issued Chubb Life HK policies and the Transferring Policies.

8.25 As such, I have no reason to believe the Proposed Schemes will lead to a materially adverse impact on the determination of discretionary benefits in relation to the existing Chubb Life HK participating policyholders.

Non-Participating Business

8.26 For non-participating, it makes up almost 80% of the Chubb Life HK business on statutory reserve basis. The reasonable benefit expectations to receive their long term guarantees and contractual obligations on a timely basis is tied to the financial security of the Company

8.27 I understand from discussions with Chubb Life HK and from the Proposed Schemes, there is no change to the contractual terms and other rights after the Transfer. Valid claims will continue to be paid when due in the same manner as before the Transfer.

8.28 The non-participating products offered by Chubb Life HK starting 1 July 2023 will be identical to the products currently sold by CLICL, and policies will be allocated to the Chubb Life HK New Life Fund or Chubb Life New Linked Fund, respectively. All contractual terms, including the crediting rate that has been approved for 2023, will apply to the new policies underwritten by Chubb Life HK on and after 1 July 2023. Therefore, I have no reason to believe the reasonable benefit expectation of policyholders purchasing Chubb Life HK non-participating products after 1 July 2023 will be adversely affected after pooling with Transferring policies from CLICL in the same fund.

8.29 The assets backing the non-participating insurance liabilities of Chubb Life HK policyholders will be segregated from the CLICL Transferring Policies.

8.30 Based on the above, I conclude that the reasonable expectations of both participating and non-participating Chubb Life HK policies will not be materially adversely affected by the Proposed Schemes.

Financial Security

8.31 For the Chubb Life HK Policyholders, the security to their long term guarantees and contract obligations is affected by the level of the reserves and the capital after the Transfer.

8.32 The details of the financial positions after the Transfer is documented in Section 6. After the Transfer, both Chubb Life HK policyholders and the Transferring Policyholders will benefit from a greater level of total surplus level which gives more certainty and security to the protection of the Chubb Life HK Policyholders' benefits. Based on the baseline and sensitivities performed on the solvency ratios, I conclude the financial securities of the Transferring Policyholders will not be materially adversely affected by the Proposed Schemes.

Cost and Expenses in Relation to the Scheme

8.33 As described under paragraph 5.27, CLICL will bear the cost and expenses related to my appointment as the Independent Expert, and the cost of implementation will be borne by Chubb Life HK. This includes but not limited to costs associated with preparation of the Schemes, obtaining Courts' sanctions, and other expenses associated with the Transfer, incurred before and after the transfer date. The cost will be expensed through Chubb Life HK and met by Chubb Life HK's Shareholders' fund. The total costs and expenses incurred are estimated to be USD 1 million.

8.34 The Companies have confirmed that the costs and expenses incurred in relation to the Transfer will not lead to an increase to the unit costs charged to Policyholders' benefits nor a reduction in the Policyholders' dividend level. The costs however will have an impact on the Company's solvency position in 2023. Given the estimated total costs and expenses, the impact should be less than one percent point on Chubb Life HK's solvency ratio. There should be no adverse impact to the Transferring Policyholders and the Chubb Life HK Policyholders.

Customer Service

8.35 Chubb Life HK confirms to me that there is no expected change in levels of service and business practices as the support will be provided by the same personnel that currently handle these operations for both CLICL and Chubb Life HK under the Policy Administration Agreement. These employees will cease to be employed by CLICL and will be offered employment with Chubb Life HK and their terms of employment of the employees that support the operations of CLICL and Chubb Life HK will remain unchanged.

Other Considerations

8.36 Both CLICL and Chubb Life HK investment strategies are jointly managed by Chubb Group's and local teams. I understand the current policy, management and governance structure will remain unchanged after the Transfer. The investment strategy and the Strategic Asset Allocation ("SAA") determining principles are unaffected by the Transfer for the Companies. Since the investment policies and asset allocation will be maintained separately in the newly created sub funds. Therefore, I have no reason to believe the Proposed Schemes will have a material adverse impact on the Chubb Life HK Policyholders.

8.37 Based on the above, I consider that the Proposed Schemes will have no material effect on the Transferring Policyholders in respect of matters such as response times to customer enquiries, claim settlement, investment management, capital management, underwriting, risk management and expense levels in relation to how they may affect the security of their contractual rights of level of services provided.

8.38 It is important to note that given the nature of insurance business, there is inherent uncertainty in the above assessments and I have placed reliance on the information provided by Chubb Life HK in performing this assessment.

Summary

8.39 In summary, I have concluded that in relation to Chubb Life HK Policyholders:

- Total reserves for the Chubb Life HK Policyholders will be calculated using established methods and valuation bases that satisfy the Hong Kong regulatory standards and the underlying methodology is not expected to be changed materially.
- The projected solvency ratio on HKRBC basis for the Chubb Life HK after the Transfer will decrease slightly, however both Chubb Life HK policyholders and the Transferring Policyholders will benefit from a greater level of total surplus level which gives more certainty to the protection of their benefits.
- Based on the various documents provided to me, the Chubb Life HK Policyholders will continue to be protected. All aspects related to capital, investment and risk management are not materially adversely impacted as a result of the Proposed Schemes.
- Based on my assessment, the Scheme is unlikely to expose the Chubb Life HK Policyholders to new risks of significance.

Section 9: Policyholder Communications

Introduction

9.1 In this section I summarise the notifications that CLICL and Chubb Life HK will send out to the recipients listed in paragraph 9.2 below and my opinion on their effect of the long term policyholders of the Parties.

Notifications to the Policyholders and Shareholders of CLICL and Chubb Life HK Respectively

9.2 A Notice Pack including a summary of the terms of the Scheme and a Summary Report to comply with the statement as required under Section 24(3)(b) of the Ordinance (the "Statutory Statement"), will be sent to the registered address of the following recipients to the last known address by ordinary mail (if located in Hong Kong) or by ordinary air mail (if located outside Hong Kong) in both the English and Chinese language as well as by e-mail to CLICL and Chubb Life HK policyholders who normally receive communications by e-mail and SMS:

- Chubb INA International Holdings Ltd. (shareholder of CLICL);
- Current CLICL policyholders as at the end of 30 June 2023;
- Expired, terminated, matured or surrendered CLICL policyholders with outstanding claims as at 30 June 2023;
- CLICL policyholders with lapsed policies and within reinstatement period as at 30 June 2023;
- CLICL's policy applicants as at 30 June 2023 with a Notice Pack informing them of the pending Portfolio Transfer;
- Chubb International Investments Limited (shareholder of Chubb Life HK);
- Chubb Life HK policyholders as at 30 June 2023 (including 2,510 non-migrated Health policies administered by Cigna Worldwide General Insurance Co. Ltd. under an Administration Services Agreement dated 1 July 2022);
- Chubb Life HK's policy applicants as at 30 June 2023 and thereafter.

jointly referred to as the "recipients".

9.3 Statutory Notice will be published in both English and Chinese newspapers (namely South China Morning Post and the Hong Kong Commercial Daily) and Gazette.

9.4 All recipients as set out in paragraph 9.2 will be able to review the electronic version of the information about the Scheme on the Parties' corporate websites until the end of the substantive hearing of the Petition, including the full terms of the Scheme, a full version of this report, copy of the Petition (having annexed thereto a copy of the Scheme) and the Statutory Statement in both English and Chinese language, except the Petition which will only be in the English language. Alternatively, recipients under paragraph 9.2 will be able to inspect copies of the above documents at the offices of the Parties, between 9:00 a.m. to 6:00 p.m. (Hong Kong time) on Monday to Friday (except public holidays)) for not less than 21 days from the date of first publication of the Statutory Notice, request copies by writing to the offices of the Parties on or prior to the date of the substantive hearing of the Petition, or call the customer service hotline of the Parties with any enquiries about the Scheme.

9.5 A copy of the Supplementary Report will be posted on the Parties' corporate websites upon finalisation of the Supplementary Report in around August 2023, and such posting shall be maintained until the end of the substantive hearing of the petition.

9.6 Key documents, including summaries of this report and the Supplementary Report, will be available in English and Chinese, except that the Petition will be available in English only.

9.7 The recipients under paragraph 9.2 will be notified in writing after the Scheme has been sanctioned by the Hong Kong Court and the Bermuda Court, and has taken effect. If the Scheme is not sanctioned by the Hong Kong Court and/or Bermuda Court and does not take effect, the recipients will also be notified in writing.

9.8 I am satisfied that the proposed approach to communicating with the recipients is reasonable. I have also reviewed the English version of the proposed communication documents and am satisfied that these documents should help explain the material effects of the transfer. I will rely on the Companies to ensure that the Chinese version of the Scheme document is a faithful translation of the English version and accept no responsibility for any mistranslation.

Notifications To the Prospective Policyholders of the Companies

9.9 CLICL will cease to accept new applications for insurance policies after the end of 30 June 2023 and cease to effect any new contracts of insurance of long term business, in or from Hong Kong after the end of 31 August 2023, and Chubb Life HK will write new long term business in or from Hong Kong from 1 July 2023 onwards. There is no concern in my view over the notifications to prospective policyholders of long term business under Chubb Life HK (or successful policy applicants of CLICL before 31 August 2023 who are transferred to Chubb Life HK after the Scheme has taken effect).

Objections and Queries

9.10 The recipients and any other persons who feel they will be adversely affected by the carrying out of the Scheme may put their objections to the Hong Kong Court and Bermuda Court either in writing, by attending the substantive hearing of the petition or by asking a representative to raise their objection by giving at least three business days' prior written notice to the Parties before the said hearing. In dealing with whether to sanction the Scheme, the Hong Kong Court and Bermuda Court will consider these objections. I will also consider objections that have been made in writing sufficiently prior to the finalisation of the documents for submission to the substantive hearing of the Petition in coming to my view on the appropriateness of the Scheme, and will report as appropriate in the Supplementary Report, if relevant.

9.11 The Parties will also keep an inquiry/complaints log starting on the date of the directional hearing until the substantive hearing of the Petition for review by the Regulators.

Section 10: Reliances and Limitations

Reliances

10.1 In preparing my report, I have had access to documented evidence provided by the Companies, detailed in Appendix B of the report. I have also had access to, and discussions with staff and management of the Companies. In forming my opinions I have relied on information provided by or on behalf of the Companies in connection with the Proposed Schemes, both in writing and orally.

10.2 I have relied on the accuracy of the information provided by or on behalf of the Companies or employees of the Companies, I consider it is reasonable to rely on the information as much of the information has been subject to internal and external audit or external review. My team and I have also discussed with representatives of CLICL and Chubb Life HK in detail the information which they have provided in relation to the Proposed Schemes, and I have had the opportunity to question inconsistencies in the information provided. My team and I have reviewed the information provided for general reasonableness and accuracy based on my own experience of the insurance industry.

10.3 The Companies have reported the solvency positions under HKIO basis to the IA and projections of the solvency positions on HKIO basis. The results have been subject to internal review. In the context of my Independent Actuary opinion on the transfer of the CLICL to Chubb Life HK, I believe the Companies have taken a reasonable approach in producing the solvency ratios over projected years for me to form my opinions.

10.4 I have obtained confirmation from the Companies that, to the best of their knowledge and belief:

- All of the items of data and information that have been provided to me by the Companies for the purposes of this Report are accurate and complete;
- there are no significant errors or omissions in the descriptions in this Report of the business of CLICL or the business of Chubb Life HK; and
- there are no other material items of data and information that have not been provided to me by the Companies and which are likely to be relevant to this Report.

10.5 In the Report, where I make statements about, or provide descriptions of, CLICL's or Chubb Life HK's current or proposed practices, these are based on the information provided to me by CLICL and/or Chubb Life HK**.**

10.6 I have not independently reviewed the calculations provided to me and I explicitly rely on the Companies and their Appointed Actuaries and Chief Actuaries that all the calculations used in relation to the Hong Kong Scheme are appropriate and accurate as presented. I have, however, reviewed the methodology and assumptions used in some of the calculations.

Limitations

10.7 This Report has been prepared for the Companies, Regulators and the Courts for the purpose of assisting in determining if the Proposed Schemes should be approved and must not be relied upon by any other party for any other purpose. This Report has been prepared in accordance with the Statement of Work and for that purpose. It must be considered in its entirety. Neither I nor WTW owe or accept any duty to any other party (except the aforesaid) and shall not be liable to any other party uses this Report for a purpose for which it was not intended.

A copy of this Report and/or a summary of this Report sufficient to indicate my opinion on the likely effects of the Proposed Schemes on the Transferring Policyholders and the Chubb Life HK Policyholders, including the first paragraph of section 7.1 above and approved by myself (“a Report Summary”) may be provided to the following parties:

- the members of the Companies[1] and to other companies within the Chubb Group;
- the Regulators, for the purpose of complying with their statutory obligations;
- the Courts, to assist in determining whether the Proposed Schemes should be sanctioned; and
- any other person who has or asserts a right to receive a copy of this Report under the Insurance Ordinance or the Insurance Act including, without limitation, Transferring Policyholders and Chubb Life HK Policyholders.

A copy of this Report and/or a Report Summary (approved by me) may also be provided to:

- legal advisers to the Companies;
- auditors of the Companies; and
- tax advisers of the Companies,

provided that the Companies inform them (i) that this Report may not, save as set out above, be disclosed to any other party without my prior written consent and (ii) neither I nor WTW accept any responsibility or liability to them in respect of any use they may make of this Report.

10.8 A copy of this Report and/or a Report Summary may be published on the websites of the Companies and made available for inspection at the Companies’ offices in Hong Kong. Otherwise this Report (or any extract from it) must not be published without WTW’s prior written consent.

10.9 Draft versions of this Report or a Report Summary must not be relied upon by any person for any purpose.

10.10 This Report has been produced based on financial information in respect of CLICL, Chubb Life HK and the Transferring Portfolio as of 31 December 2022, and does not take into account any developments after that date unless stated explicitly to the contrary in this Report.

10.11 The Companies have recognized that worldwide social and economic activity became severely impacted by the spread and threat of the COVID 19 pandemic, and demonstrated shocks in the capital level due to incurrence of losses.

10.12 This report does not provide financial or other advice to individual policyholders, and must not be construed as legal, investment or tax advice.

10.13 Figures in all tables in the Report are subject to possible rounding differences.

10.14 In this Report, where I have used defined terms, used in either of the Proposed Schemes, these terms have, unless otherwise defined in this Report, the same meaning as set out in the Proposed Schemes.

[1] This is a specific requirement of s.24(3)(b) of the Insurance Ordinance.

Appendix A: Glossary

Definition	Description
AGN7	Actuarial Guidance Note 7 under Hong Kong regulations
Approved Actuary	Approved Actuary, a qualified actuary independent of the parties involved in the Proposed Schemes as required under Section 25 of the Insurance Act 1978 of Bermuda
ASHK	Actuarial Society of Hong Kong
BMA	Bermuda Monetary Authority, the insurance regulator in Bermuda
Bermuda Court	the Supreme Court of Bermuda
Bermuda Scheme	the proposed transfer of CLICL's Long Term Business from CLICL to Chubb Life HK effected as a scheme of transfer under Section 25 of the Insurance Act.
Bonus/Dividends	Bonuses or dividends are additional non-guaranteed benefits which may be paid to policyholders
BSCR	Bermuda Solvency Capital Requirement. Statutory capital is calculated based on the BSCR basis which is a risk-based capital model that measures risk to determine an enhanced capital requirement ("ECR") and target capital level
Business Transfer Agreement	A business transfer agreement between the transferor and the transferee.
Companies	CLICL and Chubb Life HK
Chubb	the Chubb group of companies, the ultimate holding company of which is Chubb Limited
Chubb Life HK	Cigna Worldwide Life Insurance Company Limited (formerly CIGNA Worldwide Life Insurance Company Limited)
Chubb Life HK Policyholders	Chubb Life HK's policyholders prior to the Transfer
CISSA	Commercial Insurer's Solvency Self-Assessment, a formal risk management process under the Bermuda insurance regulatory regime
CLICL	Chubb Life Insurance Company Ltd.
Courts	the Hong Kong Court and the Bermuda Court
DST	Dynamic Solvency Testing, which is required for long term insurance company that is incorporated in Hong Kong under Actuarial Guidance Note 7
EBS	Economic Balance Sheet framework requires both assets and liabilities to reflect current market economics.
Engagement Letter	the engagement letter entitled Statement of Work dated 11 October 2022 signed between WTW and CLICL on behalf of Chubb Life HK
ERM	Enterprise Risk Management
HKIA	Hong Kong Insurance Authority, the insurance regulator in Hong Kong
HKD	Hong Kong dollars

HKIO	Hong Kong Insurance Ordinance
Hong Kong Court	the Court of First Instance of Hong Kong
Hong Kong Scheme	the transfer of CLICL's Long Term Business carried on in Hong Kong to Chubb Life HK effected as a scheme of transfer under s.24 of the Insurance Ordinance
Independent Actuary	a qualified actuary independent of the parties whose report on the Hong Kong Scheme is required under Section 24(2) of the Insurance Ordinance
Insurance Act	the Insurance Act 1978 of Bermuda
Insurance Ordinance	the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong)
Long Term Business	long term business as defined in the Insurance Ordinance and the Insurance Act
ORSA	Own Risk and Solvency Assessment, which requires insurance companies to issue their own assessment of their current and future risk through an internal risk self-assessment process
Proposed Schemes	the Hong Kong Scheme and the Bermuda Scheme
Regulators	the HKIA and the BMA
Report	this report
Statement of Work	the statement of work set out in the Engagement Letter
SST	Stress and Scenario Testing, a testing performed by Chubb Life HK to ensure sufficient actions are available through recovery and continuity plans. The stress scenarios include change in interest rates, increase in mortality and morbidity, and change in business growth.
Statutory Capital Requirement	Under Hong Kong regulatory capital requirements, insurers are required to maintain sufficient assets to cover the long term liabilities plus a solvency margin calculated in accordance with CAP 41F – Insurance (Margin of Solvency) rules.
Statutory Capital Ratio Requirement	This is the minimum solvency ratio, calculated as the ratio of Statutory Capital and Surplus to its Statutory Capital Requirement, is 100%. For monitoring purposes, the HKIA requires the long term insurers to maintain a solvency ratio of at least 150%.
The Transfer	The transfer from CLICL to Chubb Life HK effected by the Hong Kong Scheme under Hong Kong law pursuant to section 24 of the Insurance Ordinance, Chapter 41 and the "Bermuda Scheme" under section 25 of the Insurance Act 1978 of Bermuda
Transferring Business	the long term business to be transferred from CLICL to Chubb Life HK under the Transfer
Transferring Policies	the insurance policies to be transferred from CLICL to Chubb Life HK under the Transfer
Transferring Policyholders	the policyholders of the Transferring Policies
Transferring Portfolio	the Transferring Policies and Transferring Business being transferred from CLICL to Chubb Life HK under the Transfer
WTW	"Willis Towers Watson" or Willis Towers Watson US, LLC
$, USD, US$	US dollars

Appendix B: Information Considered

For the purposes of this Report, I have reviewed various items of data and information, including but not limited, to the following:

- [Proposed] Scheme Documents dated 16 December 2022
- [Proposed] Business Transfer Agreement dated 13 December 2022
- [Proposed] Scheme of Transfer dated 16 December 2022
- [Proposed] Conveyance, Assumption and Assignment Agreement dated 2 December 2022
- Presentation on the Restructure of Chubb Life HK
- CLICL BSCR Summaries
- CLICL Financial Condition Report
- CLICL Statutory Financial Statements
- CLICL Commercial Insurer's Solvency Self-Assessment ("CISSA") Report
- CLICL Business Plan 2022
- CLICL Audited Financial Statements
- CLICL Actuarial Report
- CLICL Actuarial Opinion
- CLICL Own Risk and Solvency Assessment ("ORSA") Report
- CLICL Dynamic Solvency Testing ("DST") (AGN7) Report
- Chubb Life HK Audited Financial Statements
- Chubb Life HK Actuarial Investigation Report
- Chubb Life HK ORSA Report
- Chubb Life HK Dynamic Solvency Testing ("DST") Report

This information and various email supplementary information has been provided by or on behalf of the Companies.

I have relied upon the accuracy and completeness of the above data and information without independent verification. However, I have reviewed the data and information for general consistency and overall reasonableness based on my wider experience.

I have received a letter of representation signed on 12 May 2023 which confirms the accuracy and completeness of the information provided to me in performing my Independent Actuary and my Approved Actuary roles.

Appendix C: Prudential Regulation Authority Statement of Policy Section 2.27 to 2.40

C.1 Introduction

This appendix sets out the guidance in PRA's Statement of Policy (The PRA's approach to insurance business transfers) on the form of a report on an insurance business prepared by an independent expert.

C.2 Scheme Report

Below are the section 2.27 to 2.40 from PRA's Statement of Policy (The PRA's approach to insurance business transfers).

Section 2.27, 2.27A, 2.27B

C.2.1 Under section 109 of Financial Services and Markets Act 2000 ("FSMA"), a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the PRA (following consultation with the FCA).

> 2.27A The PRA's assessment of whether to approve the form of the scheme report considers if the report is in an appropriate form to be submitted to the court to assist its assessment of the scheme. The PRA expects to take into consideration whether the report:
>
> (1) covers in sufficient detail all the issues that appear to the PRA to be relevant; and
>
> (2) incorporates appropriate reasoning.
>
> 2.27B The PRA would generally expect a scheme report to contain at least the information specified in 2.30 and 2.32–2.33 below before it would be able to consider approving the form of the report.

Section 2.28

C.2.2 When the PRA has approved the form of a scheme report, the scheme promoter(s) may expect to receive written confirmation to that effect.

Section 2.29

C.2.3 There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert would therefore be expected to contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form their own opinion on such issues, which may differ from the opinion of the regulators.

Section 2.30

C.2.4 The scheme report should comply with the applicable rules on expert evidence and should as a minimum contain the following information:

1) who appointed the independent expert and who is bearing the costs of that appointment;
2) confirmation that the independent expert has been approved or nominated by the PRA;
3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;
4) whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;
5) the scope of the report;
6) the purpose of the scheme;
7) a summary of the terms of the scheme in so far as they are relevant to the report;
8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;

(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;

9) the extent to which the independent expert has relied on:
    (a) information provided by others; and
    (b) the judgement of others;
10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;
11) their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:
    (a) transferring policyholders;
    (b) policyholders of the transferor whose contracts will not be transferred;
    (c) policyholders of the transferee; and
    (d) any other relevant policyholder groupings within the above that the independent expert has identified.
12) their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme;

(12A) their definition of 'material adverse' effect;

13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme;
14) for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and

an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.

Section 2.31

C.2.5 The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.

Section 2.32

C.2.6 The summary of the terms of the scheme should include:

- a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and
- a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.

Section 2.33

C.2.7 The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should:

- include a comparison of the likely effects if it is or is not implemented;
- state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;
- analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;
- include the independent expert's views on:
    - the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing;
    - the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets;
    - the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to

emerge after the first year or that are not fully captured by the regulatory capital requirements;

- whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme;
- the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to:
  - the security of policyholders' contractual rights,
  - levels of service provided to policyholders,
  - for long term insurance business, the reasonable expectations of policyholders;
- the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long term insurance business, their reasonable expectations; and
- the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.

Section 2.34

C.2.8 The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer.

Section 2.35

C.2.9 For any mutual company involved in the scheme, the report should:

- describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;
- state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and
- comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.

Section 2.36

C.2.10 For a scheme involving long term insurance business, the report should:

- describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;
- if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;

- describe the likely effect of the scheme on the approach used to determine:
  - the amounts of any non-guaranteed benefits such as bonuses and surrender values; and
  - the levels of any discretionary charges;
- describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)–(3)) that could act to the detriment of existing policyholders of either firm;
- include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long term insurance business policyholders;
- state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and
- state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.

Section 2.37

C.2.11 Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level.

Section 2.38

C.2.12 A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless:

- the information required is not available and will not become available in time for their report, for instance it might depend on future events; or
- they are unable to report on this aspect in the time available

Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.

Section 2.39

C.2.13 The PRA expects the independent expert to provide a supplementary report for the final court hearing. Any supplementary reports will form part of the scheme report required to be produced under section 109 of FSMA and must also comply with 2.30-2.37.

Section 2.40

C.2.14 The purpose of the supplementary report is for the independent expert to provide an update on any relevant new information or events that have occurred since the date of the scheme report and to provide an opinion on whether they have affected the transfer. Matters that should be considered include, but are not limited to:

- the most recent audited and unaudited available financial information in respect of the transferor and transferee, which the PRA would expect to have been internally validated;
- any recent economic, financial or regulatory developments; and
- any representations made by policyholders or affected persons that raise issues not previously considered in the scheme report.

C.2.15 2.40A In circumstances where there has been a duration between the directions hearing and the final court hearing of six months or more, it may be appropriate for the independent expert to produce an updated scheme report rather than a supplementary report. The PRA would assess this report as set out in 2.27A.

Appendix D: Financial Conduct Authority Handbook SUP18.2.31G to 18.2.41G

D.1 Introduction

D.1.1 In this appendix I set out the guidance in FCA's Supervision Handbook section 2 of SUP 18 (Transfers of Business) on the form of a report on an insurance business prepared by an independent expert.

D.2 Form of Scheme Report

SUP 18.2.31G

D.2.1 Under section 109 of the Act (Financial Services and Markets Act 2000), a Scheme report must accompany an application to the court to approve an insurance business transfer Scheme. This report must be made in a form approved by the appropriate regulator. The appropriate regulator would generally expect a Scheme report to contain at least the information specified in SUP18.2.33G before giving its approval.

SUP 18.2.31AG

D.2.2 When the appropriate regulator has approved the form of a Scheme report, the Scheme promoter may expect to receive written confirmation to that effect from that regulator.

SUP 18.2.32G

D.2.3 There may be matters relating to the Scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert should therefore contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators.

SUP 18.2.33G

D.2.4 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:

- who appointed the independent expert and who is bearing the costs of that appointment;
- confirmation that the independent expert has been approved or nominated by the appropriate regulator;
- a statement of independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;
- whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;
- the scope of the report;
- the purpose of the Scheme;
- a summary of the terms of the Scheme in so far as they are relevant to the report;

- what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided;
- the extent to which the independent expert has relied on:
  - information provided by others; and
  - the judgment of others;
- the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;
- his opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:
  - Transferring Policyholders;
  - policyholders of the transferor whose contracts will not be transferred; and
  - policyholders of the transferee;
- his opinion on the likely effects of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;
- what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the Scheme; and
- for each opinion that the independent expert expresses in the report, an outline of his reasons.

SUP 18.2.34G

D.2.5 The purpose of the Scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the Scheme and by the regulators. The amount of details that it is appropriate to include will depend on the complexity of the Scheme, the materiality of the details themselves and the circumstances.

SUP 18.2.35G

D.2.6 The summary of the terms of the Scheme should include:

- a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and
- a description of any guarantee or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.

SUP 18.2.36G

D.2.7 The independent expert's opinion of the likely effects of the Scheme on policyholders should:

- include a comparison of the likely effects if it is or is not implemented;
- state whether he considered alternative arrangements and, if so, what;

- where different groups of policyholders are likely to be affected differently by the Scheme, include comment on those differences he considers may be material to the policyholders; and
- include his views on:
  - the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
  - the likely effects of the Scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:
    - the security of policyholders' contractual rights;
    - levels of service provided to policyholders; or
    - for long term insurance business, the reasonable expectations of policyholders; and
  - the cost and tax effects of the Scheme, in so far as they may affect the security of policyholders' contractual rights, or for long term insurance business, their reasonable expectations.

SUP 18.2.37G

D.2.8 The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer.

SUP 18.2.38G

D.2.9 For any mutual company involved in the Scheme, the report should:

- describe the effect of the Scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;
- state whether, and to what extent, members will receive compensation under the Scheme for any diminution of proprietary rights; and
- comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between with voting rights and those without.

SUP 18.2.39G

D.2.10 For a Scheme involving long term insurance business, the report should:

- describe the effect for the Scheme on the nature and value of any rights of policyholders to participate in profits;
- if any such rights will be diluted by the Scheme, how any compensation offered to policyholders as group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders.

- describe the likely effect of the Scheme on the approach used to determine:
  - the amount of any non-guaranteed benefits such as bonuses and surrender values; and
  - the levels of any discretionary charges;
- describe what safeguards are provided by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;
- include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long term insurance business policyholders;
- state whether the independent expert is satisfied that for each firm the Scheme is equitable to all classes and generations of its policyholders; and
- state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by the a with-profits actuary or actuarial function holder) to ensure that the Scheme operates as presented.

SUP 18.2.40G

D.2.11 Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient details to allow him to understand in broad terms how the business will be run.

SUP 18.2.41G

D.2.12 A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either:

- the information required is not available and will not become available in time for his report, for instance it might depend on future events; or
- otherwise, he is unable to report on this aspect in the time available.

Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by the means of an order under section 112 of the Act. Each regulator would wish to consider the fairness of any such reduction against its objectives and section 113 of the Act allows the court, on the application of either regulator, to appoint an independent actuary to report on any such post-transfer reduction in benefits.

Appendix E: Scope of the Work of the Independent Actuary

My report is to consider the terms of the Schemes generally and the effect which the Schemes will have on the policyholders of the Companies. In particular, my report will consider the following specific matters:

- The impact of the Schemes on the contractual benefits of the policyholders of the Companies involved in the Schemes;

- The impact of the Schemes on the financial security of the policyholders of the Companies involved in the Schemes;

- The impact of the Schemes on the reasonable benefit expectations of policyholders of the Companies involved in the Schemes;

- A review of the operational continuity resulted by the change in operational plans following implementation of the Schemes and its associated costs implications,

- A review, and assessment on the fairness of, the potential change in capital position following implementation of the Schemes to the policyholders of the Companies involved in the Schemes;

- A review, and assessment on the risk exposures and mitigation actions to the policyholders of the Companies involved in the Schemes;

The above list is not intended to be exclusive to any other aspects which may be identified during the project considered to be relevant. In preparing the report, I will give due consideration to all material facts and take proper care to ensure that the report will in its final form accurately represent my opinion on the matters set out above within my area of expertise.

I shall not be directly involved in the formulation of the proposed transfer although I should expect to give guidance during the evolution of the detailed proposals on those issues which concern me, or which I consider unsatisfactory.

I will not provide any advice with respect to the merits of the transfer.