IMPORTANT INFORMATION

May 27, 2021

Zurich Insurance Holdings (Hong Kong) Limited
[Address]

Dear Sirs,

Proposed transfer of the whole of the long term business carried on in or from Hong Kong by Zurich Life Insurance Company Ltd ("ZLIC") to Zurich Life Insurance (Hong Kong) Limited ("ZLIHK")

We are writing to advise you of the proposed transfer of all the long term insurance business underwritten by another member of Zurich, ZLIC through its Hong Kong branch to ZLIHK (the "**Proposed Transfer**").

This letter sets out important information regarding the Proposed Transfer of all the long term insurance business carried on in or from Hong Kong by ZLIC through its Hong Kong branch ("**ZLIC HK Business**") to ZLIHK. As a shareholder of ZLIHK, it is important for you to understand the Proposed Transfer. The Proposed Transfer will be carried out in accordance with the statutory process set out in section 24 of the Insurance Ordinance (the "**Ordinance**"), under which an application shall be made to the Court of First Instance ("**Hong Kong Court**") for the sanction of a scheme setting out the terms of the transfer ("**Scheme**"). The application has been made by way of petition (the “**Petition**”) to the Hong Kong Court in April 2021.

The Scheme will be considered in the Petition hearing of the Hong Kong Court which is scheduled to take place at 10 a.m. on August 9, 2021. The transfer contemplated under the Scheme will not proceed unless, it is approved, among others, by the Hong Kong Court.

An independent actuary, Mr. Paul Sinnott, a Fellow of the Institute of Actuaries (United Kingdom) and a Fellow Member of the Actuarial Society of Hong Kong (the "**Independent Actuary**"), has been appointed by ZLIC and ZLIHK to examine the likely effects of the Scheme on the long term policyholders of ZLIC and ZLIHK and to prepare a report based on the financial information of ZLIC and ZLIHK as of 30 September 2020 for the Hong Kong Court. A summary of the Scheme and the Independent Actuary's report are included in Schedules 1 and 2 to this letter. A supplementary report by the Independent Actuary (the "**Supplementary Report**") will be prepared to provide an update on the relevant financial information as of 31 December 2020 and whether there is any change in the view of the Independent Actuary. It is expected that the Supplementary Report will be finalised and made available on the website of ZLIC and ZLIHK at www.zurich.com.hk/en/important-notice/portfolio-transfer in around June/July 2021 until the end of the final Petition hearing in the Hong Kong Court.

Any person who alleges that he or she would be adversely affected by the carrying out of the Scheme is entitled to be heard in the Petition by the Hong Kong Court. If you intend to appear at the Petition hearing of the Hong Kong Court, you should give not less than three days' prior written notice to ZLIC and ZLIHK. Please refer to the section "**Final Hearing**" in **Schedule 1 - Part 2: "Further Information on the Hearing"** for details. Unless you intend to appear at the Petition hearing of the Hong Kong Court or object to the Scheme, there is no need for you to take any action. However, it is important that you understand the details of the Proposed Transfer. We recommend that you read this letter carefully.

The effect of the Proposed Transfer

Subject to the sanctioning of the Scheme by the Hong Kong Court, the Scheme shall become effective at 00:01a.m. Hong Kong time on 1 September 2021, or on such other date as ZLIC and ZLIHK may decide which shall be within 90 days after the date on which an order of the Hong Kong Court is granted sanctioning the Scheme. Unless the Scheme shall become effective on or before 90 days after the date on which the order of the Hong Kong Court is granted, or such later date and/or time, if any, as ZLIC and ZLIHK may decide and the Hong Kong Court may allow, it shall lapse.

If the Hong Kong Court sanctions the Scheme, all the policies in the ZLIC HK Business[1] ("**Transferring Policies**") will be transferred to ZLIHK. After the Proposed Transfer, all the Transferring Policies will be administered by ZLIHK, which will become the insurer of such policies in place of ZLIC.

We will notify you in writing after the Scheme has been sanctioned by the Hong Kong Court and has taken effect.

If the Scheme is not sanctioned by the Hong Kong Court, the Proposed Transfer will not take place and the Transferring Policies will remain with ZLIC who will continue to be responsible for such policies, including its administration and servicing. If the Proposed Transfer does not take place, we will notify you in writing.

The Scheme has been structured to ensure that the interests of the policyholders are safeguarded. **The Independent Actuary has opined, amongst others, on the likely effects of the Scheme on the reasonable benefit expectations and financial security of the long term policyholders of ZLIC and ZLIHK. You are advised to refer to Part 1: "Key Assessment of the Independent Actuary" and Part 2: "Summary of the Independent Actuary's Report" in Schedule 2.**

Any costs incurred in relation to the Proposed Transfer will be borne by ZLIC and ZLIHK.

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[1] The Transferring Policies will include, among others, nine existing investment-linked assurance schemes issued by ZLIC as of 28 February 2021 namely (i) Brilliant Link; (ii) Deluxe Link; (iii) Deluxe Link Junior; (iv) Harvest Link; (v) Maxi Link; (vi) Royal Link; (vii) Smart Link; (viii) Treasure Link; and (ix) Wealth Link.

Further Information

If you wish to obtain further information, you may:

- inspect copies of this letter, the Petition, the Scheme and the report of the Independent Actuary at the Customer Service Centre of ZLIC or ZLIHK at 25/F-26/F, One Island East, 18 Westlands Road, Island East, Hong Kong, during the following periods between 9 a.m. to 5:30 p.m. (local time), on normal business days (Monday to Friday (except public holidays)) from May 27, 2021 to June 17, 2021;

- visit the website of ZLIC and ZLIHK at www.zurich.com.hk/en/important-notice/portfolio-transfer until the end of the final Petition hearing in the Hong Kong Court;

- obtain the above documents free of charge by writing to the offices of ZLIC and ZLIHK at 25/F-26/F, One Island East, 18 Westlands Road, Island East, Hong Kong on or prior to the date of the final Petition hearing; or

- refer to the "Frequently Asked Questions" ("**FAQs**") as enclosed in this letter.

If you have any questions about the Proposed Transfer, please contact the designated hotline of ZLIC and ZLIHK at (852) 3405 7283, or write to ZLIC and ZLIHK at the address above, addressed to the Customer Service Centre and marking your envelope with the reference "HCMP 460/2021".

Yours sincerely,

Zurich Life Insurance (Hong Kong) Limited
Zurich Life Insurance Company Ltd, Hong Kong branch

Schedule 1

Part 1

SUMMARY OF THE SCHEME

Transfer

Zurich Life Insurance Company Ltd ("**ZLIC**") was incorporated in Switzerland and was entered into the Commercial Register of Canton Zurich since 28 December 1922. It is a wholly-owned subsidiary of Zurich Insurance Group Ltd., whose shares are listed on the SIX Swiss Exchange, and which is the ultimate parent company of the group of companies ("**Zurich Group**"). ZLIC is an insurance carrier licensed and supervised by the Swiss Financial Market Supervisory Authority (FINMA). The registered office of ZLIC is situated at Austrasse 46, 8045 Zurich, Switzerland. It was also registered as a non-Hong Kong company under Part XI of the former Companies Ordinance (Cap. 32) (now Part XVI of the Companies Ordinance (Cap. 622)) on 31 August 1984.ZLIC is an authorized insurer under the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) (the "**Insurance Ordinance**") with authorization to carry on Classes A (life and annuity), C (linked long term), and I (retirement scheme management category III) of long term business (as defined under Part 2 of Schedule I to the Insurance Ordinance) in or from Hong Kong. As part of its Class A long term business, ZLIC has underwritten Swiss Individual Life Policies through its Hong Kong branch (the "**ZLIC Hong Kong Branch**"), but the accounting and administration of such policies, including paying claims and collecting premiums, are managed by ZLIC's head office in Switzerland and will continue to be managed by ZLIC's head office in Switzerland under an outsourcing arrangement with Zurich Life Insurance (Hong Kong) Limited ("**ZLIHK**") after such policies are transferred to ZLIHK on the Transfer Date (as defined below) to minimize potential immediate customer impact. However, ZLIHK may reassess the outsourcing arrangement for optimising the longer term administration of such policies as part of its normal business review as to whether the outsourcing arrangement should be continued. Since 1 December 2016, a note has been inserted in the Register of Authorized Insurers maintained by the Insurance Authority, stating that Zurich Life Insurance Company Ltd "has ceased to effect any new contracts of insurance… in or from Hong Kong". The principal place of business of ZLIC in Hong Kong is 25/F-26/F, One Island East, 18 Westlands Road, Island East, Hong Kong.

ZLIHK was incorporated in Hong Kong on 7 May 2018.

ZLIHK is a wholly-owned subsidiary of Zurich Insurance Holdings (Hong Kong) Limited, which is in turn a wholly owned subsidiary of Zurich Insurance Company Ltd. ("**ZICL**"). ZLIC is also a wholly-owned subsidiary of ZICL, and all are companies within the Zurich Group. ZICL is a global insurance company with around US$ 303,433,000,000 of assets under management (comprising group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned, as at 31 December 2020). Other than in Hong Kong, ZICL and its subsidiaries have operations in other key markets including Europe, Middle East, Africa, North America, Asia Pacific and Latin & America and in more than 215 countries.

As part of a strategic initiative of the Zurich group[2], it is proposed that the ZLIC HK Business (as defined below) shall be transferred to and assumed by ZLIHK ("**Proposed Transfer**").

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[2] For more details, please refer to the FAQs as enclosed in this letter.

In order to take over the ZLIC HK Business (as defined below) carried on by ZLIC, an application was made by ZLIHK to the Insurance Authority on 2 January 2020 for the authorisation to carry on Classes A and C of long term business in or from Hong Kong. On 23 March 2020, formal authorization was granted by the Insurance Authority to ZLIHK to carry on those classes of long term business in or from Hong Kong.

The purpose of this Scheme is to transfer the ZLIC HK Business from ZLIC to ZLIHK, pursuant to sections 24 and 25(1) of the Insurance Ordinance (all terms as defined in the Scheme).

The Proposed Transfer

It is proposed that, pursuant to section 24 of the Insurance Ordinance, the long term business carried on in or from Hong Kong by ZLIC ("**ZLIC HK Business**") shall be transferred to ZLIHK in accordance with the terms of the Scheme and subject to the order of the Hong Kong Court ("**Hong Kong Order**") made pursuant to sections 24 and 25(1) of the Insurance Ordinance. Such ZLIC HK Business shall comprise the Transferring Policies, the Transferring Assets and Transferring Liabilities, as defined below (in this regard, "**Transferring Policies**" means (i) any Policy forming part of Class A (Life And Annuity) (including, for the avoidance of doubt, the Swiss Individual Life Policies) or Class C (Linked Long Term) of long term business underwritten by ZLIC in Hong Kong[3], under which any liability remains outstanding as at the Transfer Date, whether such Policies have been reinstated, have expired, lapsed, matured, surrendered, terminated or otherwise, including all proposals or applications for insurance policies, certificates, supplemental coverages, endorsements, riders and ancillary agreements in connection therewith; and (ii) all proposals or applications for policy renewals received by ZLIC but the processing of which has not been completed by ZLIC prior to the Transfer Date (which shall be processed by ZLIHK after the Transfer Date).

Transfer Date

This Scheme shall become effective at 00:01 a.m. hours (Hong Kong time) on such date as ZLIC and ZLIHK may decide, which date shall be within 90 days after the date on which the Hong Kong Order is granted sanctioning this Scheme (the "**Transfer Date**"). Subject to the grant of the Hong Kong Order, it is expected that the Scheme will take effect on 1 September 2021, but it may be subject to change as mutually agreed between the parties.

Unless this Scheme shall become effective on or before 90 days after the date on which the Hong Kong Order is granted, or such later date and/or time, if any, as the parties may decide and the Hong Kong Court may allow, it shall lapse.

Transfer of Assets and Liabilities

On and with effect from the Transfer Date, the "Transferring Assets" shall, by virtue of the Hong Kong Order and without any further act or instrument but subject to the paragraph on “Further or Other Acts or Assurance” below, be transferred by ZLIC to, and vested in, ZLIHK, subject to any Encumbrances in respect thereof. ZLIHK shall accept without investigation or requisition such title as ZLIC shall have at the Transfer Date to each Transferring Asset then transferred. ZLIC and ZLIHK shall as and when appropriate execute all such documents, including assignments, and do all such other acts and things as may be required to effect or perfect the transfer to, and vesting in, ZLIHK of any Transferring Asset.

In this regard, "**Transferring Assets**" means the property, assets or investment of ZLIC (including any right, discretion, authority, power or benefit of ZLIC under or by virtue of any Transferring

[3] The Transferring Policies will include, among others, nine existing investment-linked assurance schemes issued by ZLIC as of 28 February 2021 namely (i) Brilliant Link; (ii) Deluxe Link; (iii) Deluxe Link Junior; (iv) Harvest Link; (v) Maxi Link; (vi) Royal Link; (vii) Smart Link; (viii) Treasure Link; and (ix) Wealth Link.

Policies) as is attributable to the ZLIC HK Business wherever situated; and the rights, benefits and powers of ZLIC under and by virtue of:

(a) the contracts between ZLIC and its insurance intermediaries in relation to the ZLIC HK Business;
(b) the Transferring Reinsurances;
(c) any lease, outsourcing agreements or arrangements, IT and related contracts in respect of the ZLIC HK Business; and
(d) any other contracts, agreements, arrangements or undertakings in respect of or concerning the ZLIC HK Business.

"**Encumbrances**" means any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, any other encumbrance or security interest of any kind, and any other type of preferential arrangement having a similar effect.

"**Transferring Reinsurances**" means any reinsurance agreements or arrangements under which ZLIC is reinsured in respect of the Transferring Policies.

On and with effect from the Transfer Date, each Transferring Liability shall, by virtue of the Hong Kong Order and without any further act or instrument and without investigation or requisition but subject to the paragraph on "Further or Other Acts or Assurance" below, be transferred by ZLIC to, and become a liability of, ZLIHK, with the effect that ZLIC shall be entirely released from and ZLIHK shall assume all such Transferring Liabilities. ZLIC and ZLIHK shall as and when appropriate execute all such documents, including assignments, and do all such other acts and things as may be required to effect or perfect the transfer to, and assumption by, ZLIHK of any Transferring Liability. In this regard, "**Transferring Liabilities**" means all liabilities of ZLIC as at the Transfer Date attributable to the ZLIC HK Business including, without limitation, the liabilities and obligations (whether present, future or contingent) under or in relation to the Transferring Policies and ZLIC HK Business, and associated liabilities and, for the avoidance of doubt, liabilities (including fines, penalties, damages and compensation due to policyholders) for mis-selling or non-compliance of ZLIC committed prior to the Transfer Date, as well as any current and/or pending complaints, legal proceedings and/or other dispute resolution proceedings made in relation to the Transferring Policies.

Transfer of Transferring Policies

On and with effect from the Transfer Date, ZLIHK shall become entitled to all of the rights, benefits, advantages and powers conferred on or vested in ZLIC under, or by virtue of, the Transferring Policies. The Transferring Policies shall on and with effect from the Transfer Date form part of ZLIHK's long-term business carried on in or from Hong Kong.

On and with effect from the Transfer Date, all rights, benefits, advantages and powers against ZLIC conferred on or vested in the Transferring Policyholder or other third parties under or in relation to every Transferring Policy shall cease and shall be substituted by the same rights, benefits, advantages and powers against ZLIHK. "**Transferring Policyholder**" means holder of a Transferring Policy.

Transfer of Records

On the Transfer Date, all Statutory Records and other information relating to the Transferring Policyholders, insureds, beneficiaries and assignees of, or any other persons relating to, the Transferring Policies, including, without limitation, the personal data (as defined under section 2 of the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong)) of such Transferring Policyholder , insureds, beneficiaries, assignees and other persons, which is held by ZLIC shall be transferred to ZLIHK, and ZLIHK shall have the same rights, benefits, advantages and powers in holding and using (and transferring) such information as those of ZLIC prior to the Transfer Date. In this regard, "**Statutory Records**" means all books, files, registers, documents, correspondence, papers and other records that are required, by the applicable legal or regulatory requirement or corporate governance requirement (whether or not having the force of law), to be kept by ZLIC and retained in its possession in respect of the ZLIC HK Business.

In respect of the Transferring Policies under which premiums continue to be payable, the Transferring Policyholders of the Transferring Policies shall account to ZLIHK for any further premiums as and when they become due. ZLIHK shall be entitled to any and all defences, claims, counterclaims and the right of set-off against or under the Transferring Policies which would have been available to ZLIC prior to the Transfer Date.

ZLIHK shall be bound by, observe and perform all terms, conditions and covenants of the Transferring Policies, assume all liabilities and satisfy all claims and demands arising out of or in respect of the Transferring Policies in every way as if ZLIHK and not ZLIC had issued the Transferring Policies.

All terms and conditions of the Transferring Policies (including proposal, quotations, slips, or application forms, illustrative documents, principal brochures, offering documents, riders, schedules and declarations) shall remain unchanged save that, on and with effect from the Transfer Date, all references in the Transferring Policies to "ZLIC" or "ZLIC Hong Kong Branch", its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents shall be read as reference to "ZLIHK", its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents; and any reference to "ZLIC" or "ZLIC Hong Kong Branch" in the names of the Transferring Policies will be read as a reference to "ZLIHK". In particular, but without limitation, all rights and duties exercisable or expressed to be exercisable or responsibilities to be performed by "ZLIC" or "ZLIC Hong Kong Branch", its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents in relation to the Transferring Policies shall, on and with effect from the Transfer Date, be exercisable or required to be performed by "ZLIHK, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents.

Further or Other Acts or Assurance

Without prejudice to the effect of this Scheme, to the extent that the Scheme and the Hong Kong Order are not effective in transferring and vesting any of the Transferring Assets, Transferring Liabilities or Transferring Policies under this Scheme to and in ZLIHK without further or other acts or assurance (including without limitation the need of obtaining further consent or approval):

(i) ZLIC and ZLIHK shall do and execute and deliver or procure to be done and executed and delivered all such further acts, deeds, documents, instruments of conveyance, assignment, novation and transfer and all things as may be necessary to give effect to the Scheme, to transfer the ZLIC HK Business and all Transferring Assets, Transferring Liabilities and Transferring Policies to ZLIHK and as ZLIHK may request, in order to effectively convey, assign, transfer, vest and/or record title to each of the Transferring Assets, Transferring Liabilities and Transferring Policies and the ZLIC HK Business in ZLIHK as from the Transfer Date;

(ii) pending completion of such acts, deeds, documents and things, ZLIC shall as from the Transfer Date:

    (a) hold the beneficial interest in each of the affected Transferring Assets on trust for ZLIHK, to the extent that it has not been transferred to ZLIHK, and shall pay to ZLIHK promptly upon its receipt of any sums by it with respect to any such affected Transferring Assets; and

    (b) hold or assume any liabilities in each of the affected Transferring Liabilities for and on behalf of and for the account of ZLIHK;

(iii) ZLIHK shall from the Transfer Date (at its own costs) assist ZLIC to perform the obligations of ZLIC or discharge such liability of ZLIC in relation to such affected Transferring Assets, Transferring Liabilities and Transferring Policies and failing that, indemnify ZLIC against all liability and any reasonable costs or expense incurred by ZLIC that is directly attributable to such affected Transferring Assets, Transferring Liabilities and Transferring Policies; and

(iv) ZLIC shall in any event as from the Transfer Date be subject to ZLIHK's directions in respect of any affected Transferring Assets, Transferring Liabilities and Transferring Policies referred to in paragraph (i) above until the affected Transferring Assets, Transferring Liabilities and Transferring Policies are transferred to ZLIHK, and ZLIHK shall have authority to act as attorney of ZLIHK in respect of such affected Transferring Assets, Transferring Liabilities and Transferring Policies for all such purposes.

Continuation or Commencement of Proceedings

By virtue of the Hong Kong Order, on and with effect from the Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings, claims or complaints (whether current, pending, threatened or future including those not yet in contemplation) by or against ZLIC in relation to the Transferring Policies, Transferring Assets and Transferring Liabilities shall be continued or commenced by or against ZLIHK, in substitution for ZLIC and ZLIHK shall be entitled to the same defences, claims, counterclaims and rights of set-off as ZLIC in respect thereof.

New ZLIHK Insurance Funds

Prior to the Transfer Date, ZLIHK shall have established the ZLIHK Life Insurance Fund and the ZLIHK Shareholder's Fund. Prior to the Transfer Date, ZLIHK shall have established the ZLIHK Linked Fund for underwriting new Class C policies upon obtaining the requisite regulatory approval. With effect from the Transfer Date, ZLIHK shall establish the ZLIHK Swiss Individual Fund. Effective from the Transfer Date, (i) all Class A Policies (other than the Swiss Individual Life Policies under Class A) underwritten by ZLIC and in force immediately prior to the Transfer Date shall be allocated to the ZLIHK Life Insurance Fund; all Swiss Individual Life Policies under Class A Policies underwritten by ZLIC and in force immediately prior to the Transfer Date shall be allocated to the ZLIHK Swiss Individual Fund; and all Linked Policies underwritten by ZLIC and in force immediately prior to the Transfer Date shall be allocated to the ZLIHK Linked Fund; (ii) all Transferring Assets allocated to: (a) the ZLIC Life Insurance Fund, save for the Fund Surplus, immediately prior to the Transfer Date shall be allocated to the ZLIHK Life Insurance Fund; (b) the ZLIC Swiss Individual Fund, save for the Fund Surplus, immediately prior to the Transfer Date shall be allocated to the ZLIHK Swiss Individual Fund; (c) the ZLIC Linked Fund, save for the Fund Surplus, immediately prior to the Transfer Date shall be allocated to the ZLIHK Linked Fund; and (d) the Fund Surplus immediately prior to the Transfer Date shall be allocated to the ZLIHK Shareholder's Fund.; and (iii) all Transferring Liabilities allocated to: (a) the ZLIC Life Insurance Fund immediately prior to the Transfer Date shall be allocated to the ZLIHK Life Insurance Fund; (b) the ZLIC Swiss Individual Fund immediately prior to the Transfer Date shall be allocated to the ZLIHK Swiss Individual Fund; and (c) the ZLIC Linked Fund immediately prior to the Transfer Date shall be allocated to the ZLIHK Linked Fund.

"**Fund Surplus**" means the underwriting profits derived from the policies of all classes of business that are attributable to the shareholder of ZLIC.

All beneficial interest in any property, assets or investments held on trust by ZLIC for ZLIHK pursuant to the paragraph on “Further or Other Acts or Assurance” above shall be allocated to the relevant funds (as applicable) to which such property, assets or investments would have been allocated. All liabilities which are required to be satisfied by ZLIHK pursuant to the paragraph on “Further or Other Acts or Assurance” above shall be allocated to the relevant funds (as applicable) to which such liabilities would have been allocated.

Premiums, Mandates and Other Instructions

All premiums, loan repayments (if any, and interest thereon) and other amounts received or receivable by ZLIC (or its agents) in respect of any of the Transferring Policies on or after the Transfer Date shall be payable to ZLIHK (or its agents) after the Transfer Date.

ZLIHK (or its agents) shall be irrevocably authorized to endorse for payment any cheques, drafts, orders, postal orders or other instruments payable to, or to the order of, ZLIC (or its agents) and received by ZLIHK (or its agents) in respect of premiums paid or loan repayments (if any) under the Transferring Policies on or after the Transfer Date.

ZLIHK (either itself or via its agents) shall have the sole responsibility for billing and collecting premiums and paying all applicable levies and taxes in respect of premiums accrued under the Transferring Policies on or after the Transfer Date.

Any mandate, autopay authority, standing order or other instruction in force on the Transfer Date and providing for the payment by a bank or other intermediary of premiums payable to or received by ZLIC (or its agents) in respect of any of the Transferring Policies shall, from and after the Transfer Date, take effect as if the same had been provided for and authorized in favour of ZLIHK (or its agents).

Costs of the Scheme

ZLIC Hong Kong Branch shall, out of its own funds, pay all costs in relation to the preparation of this Scheme and of ZLIHK's and its presentation to the Hong Kong Court for sanction and all other professional fees related thereto. None of such costs shall be borne by the funds maintained by ZLIC or ZLIHK pursuant to the Insurance Ordinance in respect of their respective long- term business, general business or other policies of ZLIC or ZLIHK, or the policy holders thereof.

Modification

Subject to the last paragraph of this section, ZLIC and ZLIHK may apply to the Hong Kong Court for consent to modify, vary or amend the terms of this Scheme, subject to any conditions which the Insurance Authority or the Hong Kong Court may impose.

Subject to the last paragraph of this section, the terms of this Scheme shall be modified, varied or amended in accordance with such consent (with conditions, if any) as may be given by the Hong Kong Court under the paragraph above.

The consent of the Hong Kong Court shall not be required in relation to modification(s), variation(s) or amendment(s) to correct manifest error(s) of this Scheme provided that the Insurance Authority has been notified of the same and has indicated that it does not object thereto.

Governing Law

This Scheme shall be governed by the laws of Hong Kong.

Part 2

FURTHER INFORMATION ON THE HEARING

Final Hearing

The Petition for sanction of the Scheme will be heard at the Hong Kong Court. The final hearing, at which the Hong Kong Court will consider whether or not to sanction the Scheme, is scheduled to take place at 10 a.m. on August 9, 2021.

The Ordinance stipulate that any person who alleges that he or she would be adversely affected by the carrying out of the Scheme is entitled to be heard in the Petition by the Hong Kong Court.

If you do intend to appear at the hearing of the Hong Kong Court, we request you to give preferably not less than three days' prior written notice of such intention, and the reasons therefor, to the Customer Service Centres of ZLIC and ZLIHK both located at the following address:-

25-26/F, One Island East
18 Westlands Road
Island East
Hong Kong

(All letters should quote the reference "HCMP 460/2021")

If you intend to object to the Scheme but do not wish to appear at the hearing of the Hong Kong Court, you should give not less than three days' prior written notice of such intention, and the reasons therefor, to the Customer Service Centres of ZLIC and ZLIHK both located at the address above.

Schedule 2

Part 1: Key Assessment of the Independent Actuary

The Independent Actuary has opined, in particular, that:

i. the Scheme will not have a materially adverse effect on the reasonable expectations of the policyholders of ZLIC and ZLIHK, and in particular, the Transferring Policyholders of the ZLIC Hong Kong Branch, with regards to benefits and levels of service;

ii. the Scheme will not have a materially adverse effect on the financial security of the policyholders of ZLIC and ZLIHK, and in particular, the Transferring Policyholders of ZLIC Hong Kong Branch; and

iii. he is satisfied that the proposed Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Part 2: Summary of the Independent Actuary's Report

Introduction

1.1. I, Paul Sinnott, have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41 (The "Ordinance", or "HKIO"), to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of all long term insurance business carried on by Zurich Life Insurance Company Ltd. ("ZLIC") through its Hong Kong Branch ("ZLIC HK branch") (also hereinafter referred as "Transferring Business") to Zurich Life Insurance (Hong Kong) Ltd. ("ZLIHK"), a new Hong Kong domiciled subsidiary of Zurich Insurance Holdings (HK) Limited ("ZIH"), which is wholly-owned by Zurich Insurance Company Ltd. ("ZIC"). ZLIC, ZLIC HK branch and ZLIHK are collectively referred to as the "Parties". The Transferring Business involved consists of the Class A (Life and Annuity) and Class C (Linked) businesses, underwritten by ZLIC HK branch before 1 September 2021, which is the date the Scheme is expected to become effective (the "Transfer Date"). The policyholders transferring to the ZLIHK in respect of the ZLIC's Transferring Business are referred to as the "Transferring Policyholders", who hold policies which are underwritten by ZLIC HK Branch (the "Transferring Policies"); the policyholders remaining in ZLIC after the Scheme are referred to as the "Non-Transferring ZLIC Policyholders", who hold policies which are underwritten by ZLIC excluding those underwritten by ZLIC HK branch (the "Non-Transferring ZLIC Policies)" and the existing policyholders of ZLIHK before the Scheme are referred to as the "Existing ZLIHK Policyholders", who hold "Existing ZLIHK Policies".

1.2. I am a Principal and Consulting Actuary of Milliman Limited ("Milliman"), residing of 3901-2, AIA Tower, 183 Electric Road, North Point, Hong Kong. I am a Fellow Member of the Actuarial Society of Hong Kong ("ASHK") and a Fellow of the Institute and Faculty of Actuaries (United Kingdom) ("UK").

1.3. In preparing my Independent Actuary Report on the Scheme, I consulted the Hong Kong Insurance Authority ("IA") on the required contents and incorporated suggestions from the IA as appropriate. The report is prepared in accordance with the approach and expectations in Section 2 paragraphs 27 to 40 of the Prudential Regulation Authority, as set out in "The Prudential Regulation Authority's approach to insurance business transfers" dated April 2015. I have also had regard to Chapter 18 of the Supervision Manual contained in the Financial Conduct Authority ("FCA") Handbook as well as Section 6 of the further guidance released by the FCA, as set out in "The FCA's approach to the review of Part VII insurance business transfer" dated May 2018. I have also taken into account professional guidance under the Institute and Faculty of Actuaries' "APS X3: The Actuary as an Expert in Legal Proceedings" which sets out principles for actuaries to apply when instructed as an expert in relation to existing or contemplated legal proceedings (including those outside UK jurisdiction).

1.4. The scope of my review and opinions are confined to the effects of the Scheme on the long term insurance policyholders of ZLIC and ZLIHK, in particular the Transferring Policyholders. It does not include an assessment of the impact of the Scheme on the shareholders of ZLIC and ZLIHK. I have considered the Scheme as presented to me and have not considered any other alternative schemes of transfer.

1.5. I have been provided with free access to the information that I requested as necessary to conduct my work. In addition, I have also been given unrestricted access to and held discussions with various representatives of the Parties.

1.6. This is a summary of my Independent Actuary report dated 29 March 2021. Details of the scope of my work, considerations and conclusions, reliances, limitations and the terms of reference are provided in the full version of my report. Copies of the full report are available to the Transferring Policyholders, Existing ZLIHK Policyholders and other interested parties in the office of the ZLIC HK branch. An electronic version of the same report is also available on Zurich's website at www.zurich.com.hk/en/important-notice/portfolio-transfer until the final petition hearing in the Hong Kong Court.

Background of the transfer and summary of my opinion

1.7. This Scheme was initiated as part of the restructuring of the Hong Kong operations of the Zurich Insurance Group Ltd. ("Zurich Group") to enhance financial stability for policyholders and operating efficiency including facilitating more streamlined audit and regulatory compliance processes across the organization. ZLIHK became an authorised insurance company under the Insurance Ordinance on 23 March 2020.

1.8. All of the long term insurance business of ZLIC HK branch will be transferred to ZLIHK, in accordance with the proposed Scheme and the Section 24 of the Ordinance. After the Scheme Transfer, ZLIC HK branch will be wound-up and the operating license surrendered. After the completion of the Scheme Transfer, ZLIC HK Branch is expected to withdraw its authorisation in accordance with Section 40 of Insurance Ordinance. There will therefore be no remaining policyholders within ZLIC HK branch once the Scheme is implemented.

1.9. The fund structures of ZLIC HK branch (before transfer) and ZLIHK (before and after transfer) are shown below.

ZLIC HK branch fund structure before transfer

ZLIC HK branch long term business

ZLIC HK branch Life Insurance fund (Class A)	ZLIC HK branch Linked fund (Class C)	ZLIC Swiss Individual fund (Class A)

ZLIHK fund structure before and after transfer

ZLIHK long term business

ZLIHK Life Insurance funds (Class A)	ZLIHK Swiss Individual fund (Class A)	Linked fund (Class C)	ZLIHK Shareholders' Fund

1.10. As at 30 September 2020, the long term insurance business of ZLIC HK branch consisted of Class A (Life and annuity) and C (Linked) only. The key products of the retail business cover universal life, protection (such as death, critical illness and medical/hospital expenses), traditional participating and unit-linked. There is fund segregation of assets and liabilities between Class A and C business lines.

1.11. The Swiss Individual Life Policies, the so-called "Swiss Book", is a minor run-off portfolio. This is a portfolio of ZLIC Switzerland policies bought by expatriates in the Asian region who were expected to be moving back to their respective home countries some time in the future. After the Scheme Transfer, ZLIHK will retain the liabilities for these policies on its balance sheet and cede the risks to ZLIC by reinsurance arrangements, and will outsource to ZLIC such operational activities that ZLIC has been responsible for prior to the Scheme Transfer (including policy servicing, administration, payment of claims for such policies) to minimise potential immediate customer impact. ZLIHK may reassess the arrangement for optimising the longer term administration of the Swiss Book as part of its normal business review as to whether the reinsurance and outsourcing arrangement should be continued. As of 30 September 2020, there are 142 in-force policies. Within Class A, the Swiss policies are separated from the rest of the Class A insurance fund given that these Swiss policies have a different dividend policy from the other Class A participating products. Similar segregation will be maintained in ZLIHK.

1.12. ZLIHK has undertaken to fulfil all of the policy contract conditions once the Scheme is implemented. This will include the responsibility for paying all benefits of claims, maturities, policy dividends and other amounts arising from the Transferring Business including the cost of administration for all Transferring Policies.

1.13. In my opinion,

- The Scheme will not have a materially adverse effect on the reasonable expectations of the policyholders of ZLIC and ZLIHK, and in particular, the Transferring Policyholders of ZLIC HK branch, with regards to benefits and levels of service.
- The Scheme will not have a materially adverse effect on the financial security of the policyholders of ZLIC and ZLIHK, and in particular, the Transferring Policyholders of ZLIC HK branch.
- I am satisfied that the proposed Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

1.14. In arriving at my opinion, I have considered various aspects below. More detailed analyses and conclusions are provided in the full version of my report.

Effect of the Scheme on the benefit expectations of Transferring Policyholders

Participating business and universal life business

2.1. On the Transfer Date, ZLIC HK branch will transfer all participating policies and universal life policies underlying the Class A business. ZLIC HK branch's participating portfolio was closed to new business in 2013. The participating business consists of HK Traditional Annual dividend policies, HK Traditional Terminal dividend policies and Swiss Individual Life Policies. ZLIC HK branch's universal life contracts are referred to as Living products. There are 3 generations of Living products which are Old style, "2003 Series" and New style Living products.

2.2. An annual review of dividend rates for traditional participating products is performed by the Appointed Actuary and approved by the Board. ZLIC HK branch has not made any adjustments to the dividend scales of the participating policies up to the end of 2018. Both of the 2019 and 2020 dividend studies recommended a 40% dividend cut to be made in early 2020 or early 2021. These studies were performed in accordance with the existing principles and methodology set out in ZLIC HK branch's dividend policy of traditional participating products. They were conducted based solely on ZLIC HK branch as an on-going concern without taking into account of factors relating to the Transfer. Although the dividend cut recommendation is totally unaffected by the Transfer, after assessing the reasonable expectations of policyholders and competitors actions, I have been informed that ZLIC HK branch does not intend to make any adjustments to the dividend scales of the participating policies before the Transfer. ZLIHK will make future decisions in this area in the normal course of business during annual dividend investigations after the Transfer. I have been informed that the rationale for not adjusting the dividend scales before 2019 was as follows:

- given the projected small dividend pay-out in early years, the smoothed dividend adjustment of at most 40% cut derived from dividend policy may not bring material financial benefit to the branch, considering the operational cost of dividend adjustment procedure; and
- alignment with competitors' action to maintain the fulfilment ratio for their major products to be close to 100% within the first few policy years.

2.3. ZLIHK has undertaken to carry out annual dividend reviews according to the same dividend methodology used by ZLIC HK branch, whereby dividends may need to be adjusted based on the actual surplus or deficit position of the participating portfolio at the time of future review, as well as after taking into other consideration including the materiality of the financial benefits, competitors' actions and other factors not associated with the Transfer. As such, the Transfer is not a factor which will be taken into account in the dividend determination in the future review. I have been informed that, given the internal governance systems in place within ZLIHK and the same management team of Zurich, the dividend mechanism/principles communicated to policyholders will be applied consistently in the future time as prior to the Scheme transfer.

2.4. I have also been informed that ZLIHK will follow the current crediting rate setting mechanism used for the universal life business before the transfer.

2.5. The Parties have confirmed that there will not be any significant change to the existing principles and methods, target asset allocation and investment mandate with respect to the participating policies and universal life policies as a result of the Scheme. It is also important to recognise that the management of ZLIHK has the right to alter the principles and methods under the existing dividend or bonus policies and this right will not change after the Scheme is implemented.

2.6. In light of my review, it is my opinion that current participating business dividend setting and universal life crediting rate principles and methodologies, and the governance for any changes to the existing approach, which are intended to be used by ZLIHK after the transfer, provide sufficient safeguard that policyholders should expect to be treated in a similar manner before and after the Scheme is implemented.

Asset allocation and investment policy of the Transferring Business

2.7. Investment activities within the ZLIC HK branch are governed by investment mandates. The mandates set out the Strategic Asset Allocation ("SAA"), investment constraints and approval processes.

2.8. The Parties have confirmed that there is no significant change of SAA in related to the legacy liabilities of ZLIC HK branch after the Scheme is implemented if there is no significant change in ZLIHK's product mix. The Parties have also confirmed that there is no intention to make significant change to the existing investment strategies and internal governance currently adopted by ZLIC HK branch for the assets supporting the Transferring Policies after the Scheme is implemented.

Charges and investments of unit-linked policies

2.9. For the existing unit-linked products, while ZLIC HK branch has not made adjustments on the policy charges in the past, ZLIC HK branch has broad rights to vary policy charges, as well as the right to impose any other charges for administering the policies. Policyholders will be given written notice in advance according to policy provisions before any changes come into effect. These rights will continue with ZLIHK and exist whether or not the Scheme proceeds.

2.10. I have been informed that the process and principles involved in determining the level of non-guaranteed charges following Scheme implementation will not change as a result of the transfer. Based on these considerations, I have no reason to believe that the Scheme will have a material adverse impact on the discretionary charges applied to the Transferring Policyholders.

Contractual benefits provisions

2.11. According to the Scheme, ZLIHK will commit to continue paying the contractual benefits of the Transferring Policyholders of ZLIC HK branch. I have been informed that these guaranteed benefits will not be altered after the transfer. The rights of these policyholders, as defined under their existing policy documents, will be the same before and after the transfer.

Other policies subject to company discretion

2.12. For some of the packaged plans and many of the rider policies, including renewable term, accident and health benefits, dread disease benefits, ZLIC HK branch has broad rights to adjust premium rates either at each renewal, at each policy anniversary, at every 5 years or at any of the policy anniversary, as set out in the policy provisions. According to the Scheme, in accepting the Transferring Business, ZLIHK will retain the same rights with respect to these policies. However, these rights exist whether or not the Scheme proceeds and I have no reason to believe the Scheme will lead to a materially adverse exercise of discretion in relation to the Transferring Policyholders of the ZLIC HK branch.

Costs and expenses in relation to the Scheme

2.13. The costs associated with the Scheme are to be met by ZLIC shareholders, expensing through the ZLIC HK branch. ZLIC HK branch has confirmed that there will be no cost and expense incurred in relation to the Scheme that will lead to an increase in the unit costs charged to policyholders or a decrease in the policyholder level of discretionary benefits paid. Therefore, I have no reason to believe there will be any material adverse impact on the Transferring Policyholders in this regard.

Tax implications

2.14. The ZLIHK will elect the same taxation basis as the ZLIC HK branch, under which the branch calculated profit tax based on total assessable profits and the elected tax rate. The Parties have also advised that all the tax balances of the ZLIC HK branch will be transferred to ZLIHK. Given the tax regime applied to the Transferring Business will remain unchanged after the Scheme is implemented, I have no reason to believe there will be a materially adverse impact on the Transferring Policyholders of ZLIC HK branch in this regard.

Policy terms and conditions

2.15. I am informed that, other than the replacement of references to ZLIC HK branch to ZLIHK, there will be no change to the policy terms and conditions of in-force insurance policies as a result of the Scheme. The provision of policy loans being part of the policy terms and conditions will remain unchanged after the transfer. I have no reason to believe there will be a materially adverse impact on the policy terms and conditions of Transferring Policyholders due to the Scheme itself in this regard.

Reasonable benefit expectations conclusion

2.16. In summary, The Scheme will not have a materially adverse effect on the reasonable benefit expectations of the Transferring Policyholders of ZLIC HK branch, which include the policyholders of Swiss Individual Life Policies.

Effect of the Scheme on the financial security of Transferring Policyholders

3.1. The security of the contractual benefits of policyholders can be measured by the excess assets in the long term insurance business fund plus the net shareholder assets. It is affected by the conservatism of the reserving bases used and the capital and free reserves, together with additional security provided by the entity as a whole, and any potential support available from its shareholders.

3.2. I have also considered the expected overall solvency position of ZLIHK following implementation of the proposed Scheme and its possible future development.

The provision of financial security

3.3. To protect the security of policyholders, insurance companies maintain three asset layers namely policy reserves, minimum solvency margin and excess assets, with the first two layers required by legislation.

- **Policy reserves:** assets supporting the policy liabilities calculated according to the underlying contractual obligations using valuation standards prescribed by statutory rules.
- **Minimum solvency margin:** assets required to fulfil the minimum statutory solvency requirements, serving as a margin relating to the risks of liabilities underwritten by insurers.
- **Excess assets:** assets that are over and above the statutory minimum solvency margin, which can be expressed as a percentage of the required minimum solvency margin.

Policy reserves

3.4. In accordance with the required valuation standards, ZLIC HK branch has previously set up reserves for the Transferring Business using established methods and valuation bases that satisfy the Hong Kong regulatory standards (with reference to the Hong Kong Insurance Ordinance (CAP 41) and Actuarial Guidance Notes issued by the Actuarial Society of Hong Kong, “Actuarial Guidance Notes”).

3.5. In the statutory valuation reporting process, the current procedure is that each year, the Appointed Actuary of ZLIC HK branch, as the advisor to the ZLIC’s Board of Directors, proposes the valuation methods and a set of valuation assumptions.

3.6. After the Scheme is implemented, the procedures will remain the same such that each year the Appointed Actuary of ZLIHK will advise on the reserving methods and valuation bases of the Transferring Business, as well as the new policies of ZLIHK’s business, to the ZLIHK Board of Directors. As no changes in procedure in determining the valuation methodology and assumptions have been proposed if the Scheme is implemented, I do not believe there will be an adverse impact on the financial security of the Transferring Policyholders in this regard.

Solvency positions

3.7. ZLIC, the parent company of ZLIC HK branch, is incorporated in Switzerland in which the solvency is subject to Swiss Solvency Test (SST) framework for determining the risk based capital. The historical solvency position of ZLIC on the SST basis is shown in below.

TABLE 1: ZLIC'S SOLVENCY RATIOS (ON SST BASIS)

CHF millions	Dec 2017	Dec 2018	Dec 2019	Sep 2020**
Target capital	2,858	3,286	4,524	4,601
Risk-bearing capital	5,989	7,002	7,635	7,749
Market value margin	778	820	1,409	1,453
Solvency ratio*	**251%**	**251%**	**200%**	**200%**

* Figures derived from this table may not be the same due to rounding.
** The number is not required by FINMA. It has not been reviewed by FINMA and is an estimate by ZLIC. Currently only the SST as at 1 Jan 2020 or Dec 2019 is relevant for FINMA.
Source: ZLIC internal non-public information for the estimated SST figures as at September 2020.

3.8. ZLIC HK branch has estimated the solvency position of the entire ZLIC legal entity under HKIO basis for the purpose of this transfer. As the HKIO reserving is very similar to the old Swiss Solvency 1 reserving, the Swiss Solvency 1 reserve was used as an approximation of the HKIO reserve in the application of the Insurance (Margin of Solvency) Rules. The calculations have been carried out using public information including local statutory reserves, sum assured and premium of ZLIC. The historical approximated solvency position of ZLIC on the HKIO basis is shown in below.

TABLE 2: ZLIC'S SOLVENCY RATIOS (ON HKIO BASIS)

CHF million	Dec 2017	Dec 2018	Dec 2019	Sep 2020**
Solvency margin	960	990	1,019	1,011
Net assets	3,505	3,122	3,609	3,436
Solvency ratio*	**365%**	**315%**	**354%**	**340%**

* Figures derived from this table may not be the same due to rounding.
** Derived based on ZLIC internal non-public information.

3.9. ZIC the ultimate parent of ZLIHK, the holding company for is also the parent of ZLIC. ZIC, similar to ZLIC is incorporated in Switzerland in which the solvency is subject to SST framework for determining the risk based capital. The historical solvency position of ZLIC on the SST basis is shown in below.

TABLE 3: ZIC'S SOLVENCY RATIOS (ON SST BASIS)

USD millions	Dec 2017	Dec 2018	Dec 2019**

Target capital	24,573	22,280	24,687
Risk-bearing capital	43,181	41,628	45,961
Solvency ratio*	**212%**	**225%**	**241%**

* Figures derived from this table may not be the same due to rounding.
**No updated information available after December 2019 as ZIC's solvency ratio is only calculated annually.
Source: ZIC's 2018 and 2019 Financial Condition Report.

3.10. The Parties have also assessed projected solvency position of ZLIHK before and after the Transfer Date which have been considered to assess the impact of the Scheme.

TABLE 4: ZLIHK'S SOLVENCY POSITION (ON HKIO BASIS) AS AT 1 SEPTEMBER 2021

HKD million	Pre-transfer	Transfer	Post-transfer
Solvency margin	4	111	115
Net assets	152	582	734
Solvency ratio*	**3779%**	**523%**	**637%**

* Figures derived from this table may not be the same due to rounding.

TABLE 5: ZLIHK'S PROJECTED SOLVENCY RATIOS (ON HKIO BASIS)

HKD million	1 Jan 2021(*)	1 Jan 2022	1 Jan 2023
Solvency margin	2	119	127
Net assets	204	721	675
Solvency ratio**	**9438%**	**604%**	**533%**

* Solvency ratio at 1 Jan 2021 is the solvency position before the Transfer Date.
** Figures derived from this table may not be the same due to rounding.

3.11. The Parties have confirmed that ZLIHK's paid-in capital has been invested in short term fixed deposits which have been unaffected by the capital market volatility resulting from the COVID-19 pandemic

3.12. I have been informed by the Parties that if ZLIHK's solvency ratio is below 200%, or if it is anticipated that ZLIHK's solvency ratio will likely fall below 200% measured on the local statutory basis, it will seek assistance from Zurich Group to raise solvency capital or for a capital injection from ZIC via ZIH, the shareholders of ZLIHK, to meet the target solvency ratio.

3.13. I have compared the historical solvency position of the ZLIC being parent of ZLIC HK against the historical solvency position of the ultimate parent of ZLIHK, which is ZIC. As observed from Table 1 and Table 3, the solvency positions of both of the entities are very similar, which are in the range of 200% to 250% for 2017 to September 2020, implying the financial strength of both entities are comparable.

3.14. I have also focused on the comparison of the projected solvency position of the ZLIHK after the Scheme is implemented against the current solvency position of ZLIC under HKIO basis, since the results under SST basis are not available for ZLIHK. As observed from Table 2 and Table 5, the estimated solvency ratio of ZLIHK post-Scheme is higher than the current solvency ratio of ZLIC under HKIO basis, which is positive for the financial security of the Transferring Policyholders.

Dynamic solvency testing

3.15. In addition, there have been Dynamic Solvency Testing ("DST") projections which examine the solvency positions of ZLIC HK branch before the proposed transfer and ZLIHK after the proposed transfer under a number of possible adverse scenarios.

3.16. The results of these projections for ZLIC HK branch standalone before the transfer and ZLIHK after the transfer show that the solvency of ZLIHK to be comfortably above acceptable solvency requirements being 200% of the Hong Kong statutory minimum solvency requirement. While the actual solvency ratios are likely to vary over time as actual operating experience reveals, in any event the ZLIHK Appointed Actuary has the responsibility under prescribed regulations to ensure that the statutory minimum capital requirements are fulfilled.

Capitalisation policies

3.17. The Parties have stated that ZLIC HK branch has established an internal target solvency ratio range of 200% - 250% over many years and shareholder dividends are considered when free assets exceed this level to a material degree. The IA has required ZLIC HK branch to monitor its solvency position on a weekly basis and to retain the solvency capital in excess of the 200% of minimum solvency requirement, however the IA approval is not required in the capital repatriation for the branch. To ensure a buffer is retained, ZLIC HK will retain local capital between 200% and 250% of the minimum solvency requirement. In addition, since the capital requirement of ZLIC is also subject to the supervision of Swiss Financial Market Supervisory Authority ("FINMA"), the upper range is reinforced as the target solvency level.

3.18. If ZLIC HK's solvency ratio is below 200%, the branch will seek assistance from Zurich Group to raise solvency capital or a capital injection from ZLIC.

3.19. I have been informed that following the transfer, the intention is to manage ZLIHK's solvency ratio at the internal target of 225% using a similar approach. This is in line with the Zurich Group risk policy that it holds capital equivalent to the statutory minimum in the local regulated entity plus an adequate agreed buffer to allow for short-term volatility. Zurich Group endeavours to manage its internal physical capital such that all its regulated entities are adequately capitalised in compliance with the relevant regulatory capital adequacy requirements.

3.20. If ZLIHK's solvency ratio is below 200%, or if it is anticipated that ZLIHK's solvency ratio will likely fall below 200% measured on the local statutory basis, it will seek assistance from Zurich Group to raise solvency capital or for a capital injection from ZIC via ZIH, the shareholders of ZLIHK, to meet the target solvency ratio. In addition, I have been informed by the Parties that there was a letter of undertaking from ZLIHK to the IA when the license was issued, which specifies a parental commitment to maintain ZLIHK solvency of at least 150% of the statutory minimum solvency margin.

Risk exposures

3.21. In accordance with the ZLIHK's plan, a new term product was launched in Q3 2020 after receiving its license approval from the IA on 23 March 2020. There were 13 in-force Class A term policies as of September 2020, and it is expected that the number of new policies will remain to be small at the time of Scheme implementation. ZLIHK plans to continue writing non-participating protection business in the initial stage of operation towards early 2021. In terms of insurance risks, ZLIC HK branch currently has more lines of business than the ZLIHK before the Scheme Transfer. Therefore the risk profile of ZLIHK is expected to be similar to the risk profile of ZLIC HK branch.

3.22. ZLIHK is planning to underwrite various individual life businesses belonging to Class A and Class C, unit-linked funds after the initial stage of operation and also upon receiving relevant product approvals.

3.23. ZLIC HK branch has had reinsurance arrangements in place for its Class A business and Class C business and such arrangements will continue after the Transfer. This provides an additional security. In addition, both ZLIC HK branch and ZLIHK are required to meet the Zurich Risk Policy.

3.24. Based on the above considerations, I have not identified any areas where additional risk exposure resulting from the Scheme implementation is likely to prejudice the contractual entitlements of and any group of Transferring policyholders.

Investment policy

3.25. The Parties have confirmed that there is no intention to make significant change to the existing investment strategies currently adopted by ZLIC HK branch for the assets supporting the Transferring Policies after the proposed transfer.

Risk policies

3.26. ZIC and ZLIC are regulated and supervised by FINMA in Switzerland, which has its prescriptive requirements in relation to risk management. The risk management of ZIC and ZLIC is in line with these controls and is documented within the Zurich Risk Policy ("ZRP"), which sets the standard for effective risk management across all of its subsidiaries. Both ZLIC HK branch and ZLIHK develop their risk policies with reference to the Zurich Group's policies. As a result, there should not be any obvious deviation in the risk management framework.

3.27. In particular, the Risk Appetite Statement ("RAS") of ZLIC HK branch follows Zurich Group governance and local statutory requirements. The same approach is currently being followed by ZLIHK. The key requirements set up by RAS are related to risk taking approach and risk appetite for every risk category (where risk appetite is expressed as Low Appetite/ Moderate Appetite/ High Appetite), incorporating defined quantitative key performance indicators and tolerance levels. Overall, the risk appetite statements are similar for both ZLIC HK branch and ZLIHK, there are no material differences in the target levels of risk measures applicable for both ZLIC HK branch and ZLIHK and the Parties have confirmed that risk appetite is materially unchanged in the new entity.

Regulatory overlay

3.28. The financial security of the policyholders needs to be further considered from a legal perspective, especially when the Scheme involves moving from Hong Kong branch with a Swiss parent to a Hong Kong subsidiary. I have considered the regulatory overlay from two perspectives, including:

- **Regulatory framework and solvency practice:** both the Hong Kong and Swiss regulatory frameworks and solvency practice were held in high regard by the International Monetary Fund, according to their reports named "Detailed Assessment of Observance – Insurance Core Principles" on both frameworks. Most importantly, in terms of day to day regulatory supervision, the IA maintains regulatory and supervisory authority of the Hong Kong operations at all times that apply to both ZLIC HK branch and ZLIHK.
- **Policyholder protection:** currently Switzerland and Hong Kong do not have regulatory policyholder protection scheme in place to protect the policyholders should an insolvency happen despite there having been consultation paper issued on the topic previously in Hong Kong. As a result, the Scheme does not place the Transferring Policyholders in a more adverse situation in this regard. In the event of the insolvency of parent company, before the Scheme is implemented, ZLIC HK branch, as the Hong Kong operation is set up as a branch of ZLIC, the wind-up of the parent company would automatically trigger the wind-up of the branch itself given it is part of the same company. Whereas, after the Scheme is implemented, ZLIHK, being a subsidiary, the wind-up of ZLIC will not impact ZLIHK in the same way.

Financial security conclusion

3.29. In summary of my assessments above, in my opinion:

- The estimated HKIO basis solvency ratio of ZLIHK post-Scheme is higher than the 30 September 2020's solvency ratio of ZLIC, which is positive for the financial security of the Transferring Policyholders.
- Based on the policies provided, I recognise that the Transferring Policyholders will continue to be protected by the financial strength of ZIC after the Scheme is implemented through support from the capitalisation policies in the extreme event where ZLIHK faces financial difficulties. I consider this to be an important factor in maintaining the financial security of the Transferring Policyholders post-Scheme.
- In view of my assessment above, I believe the Scheme is unlikely to expose the Transferring Policyholders of the ZLIC HK branch to new risks of significance. I conclude there will be no materially adverse impact on the Transferring Policyholders' financial security after the Scheme.

Other Considerations

Level of services

3.30. The Parties have confirmed that the target service levels to all policyholders will remain the same after the transfer. For unit-linked policyholders, the existing range of fund choices currently available to them will not be adversely affected as a result of the Scheme implementation.

Reinsurance arrangement

3.31. The Parties have confirmed that the terms and conditions of existing reinsurance arrangements will remain unaltered after the transfer.

3.32. I consider the above various operational areas, including the level of service provided, will not have a material negative impact on the Transferring Policyholders and the Scheme should provide sufficient safeguards to ensure that the Scheme operates as presented.

Effect of the Scheme on the benefit expectations and financial security of the Non-Transferring ZLIC Policyholders

4.1. In assessing the effects of the Scheme on the benefit expectations and financial security of the Non-Transferring ZLIC Policyholders, I have relied upon the professional opinion of the Appointed Actuary and Chief Actuary of ZLIC.

Benefit expectations

Materiality of the Non-Transferring Business

4.2. The ZLIC HK branch represents a very small proportion of ZLIC's overall business, with only 2.6% of its parent's total gross insurance reserve and provisions for unit-linked contracts as at 30 September 2020.

Contractual benefit provisions

4.3. When forming my opinion on contractual benefits provision, I have not attempted to look at the contractual benefits provided by ZLIC. However, given the ZLIC HK branch is only a small part of ZLIC's entire business, I agree with the Appointed Actuary and Chief Actuary's opinions that the benefit expectations of the Non-Transferring ZLIC Policyholders in terms of ZLIC's ability to pay valid claims, as well as to act appropriately in other contractual matters, should be unchanged.

Bonus policies

4.4. Most business of ZLIC is participating in nature. This covers both the individual life business and the corporate life and pension businesses.

4.5. The Parties have confirmed that there will be no changes to the bonus philosophy and crediting rate philosophy as a result of the Scheme.

Other policies subject to company discretion

4.6. The charging structure of unit-linked products within ZLIC's Non-Transferring Business include monthly charges such as annual management charges, policy administration charges, allocation/setup charges, bid offer spreads, surrender charges, and benefit charges. Policyholders will be given written notice in advance according to policy provisions before any changes come into effect. These rights will continue with ZLIC and exist whether or not the Scheme proceeds.

4.7. There are ZLIC's products which allow the conversion of the savings capital into a series of annuity payments. For these products, the applicable conversion rates used to convert a savings capital into an annuity at the time of conversion would not be impacted by the transfer.

4.8. In conclusion, apart from the fact that these rights to vary unit-linked charges exist whether or not the Scheme proceeds and I have no reason to believe the Scheme will lead to a materially adverse exercise of discretion in relation to the Non-Transferring ZLIC Policyholders.

Policy terms and conditions

4.9. Both of the Appointed Actuary and Chief Actuary of ZLIC have confirmed that there will be no change to the policy terms and conditions of the in-force Non-Transferring ZLIC Policies as a result of the Scheme.

Financial security

FINMA supervision

4.10. ZLIC is subject to insurance supervision by FINMA. The Swiss Insurance Supervision Law (“ISL”) requires Swiss insurance companies to establish and maintain corporate governance including an effective risk management and internal control system that is appropriate to their business activities. In addition to the supervision exercised by FINMA, ZLIC and its branches are supervised according to the requirements of relevant local supervisory authorities.

4.11. ZLIC assesses its solvency under the Swiss Solvency Test (“SST”). In performing the SST, ZLIC assesses its solvency and financial condition, expressed as the SST ratio which must be submitted to FINMA annually.

The provision of financial security

4.12. To protect the security of policyholders of Switzerland, insurance companies are required to maintain sufficient policy reserves and sufficient solvency margin under the Swiss Solvency Test.

Policy reserves

4.13. ZLIC has been reporting under the Switzerland regulatory regime to FINMA, with the Appointed Actuary and the auditor certifying compliance with the Swiss Insurance Supervision Ordinance ("AVO”) and the actuarial requirements specified in ZLIC’s business plan. In the statutory valuation reporting process, the Appointed Actuary is responsible for the valuation methodology and the setting of adequate actuarial assumptions. After the transfer, the procedures and responsibilities will remain the same. There is no change in procedure in determining the valuation methodology and assumptions before and after the transfer.

Overall financial position and shareholders’ capital

4.14. ZLIC is part of the Zurich Insurance Group which maintains a strong capital position. ZLIC is adequately capitalised and is projected to have stable solvency ratio as at the Transfer Date, and the Company expects the same after the transfer.

4.15. Given the size of the Transferring Business is relatively immaterial to ZLIC and from the projected solvency position of ZLIC shown above, I agree with the Appointed Actuary and Chief Actuary that the transfer is not expected to materially adversely affect the financial security of the Non-Transferring ZLIC Policyholders.

Risk exposure

4.16. Due to the relatively small size of the Transferring Business (only 2.6% of total ZLIC’s business as at 30 September 2020) compared to the Non-Transferring Business, the risk exposure of the Non-Transferring Business does not change materially as a result of Scheme implementation.

Capitalisation policy

4.17. ZLIC maintains a Risk Appetite Statement which includes a framework of coverage boundaries in excess of the minimum level required by Swiss law and regulation which include tied assets, statutory shareholder equity and SST solvency. The Risk Appetite Statement will continue to apply after the transfer so the capitalisation policy will not be changed as a result of the Scheme.

Risk policy and risk management framework

4.18. I have been informed that ZLIC’s risk policy and risk management framework will not be changed as a result of the Scheme.

Investment policy and currency risk hedging

4.19. Since the Transferring Business is ring-fenced from ZLIC parent company and the Non-Transferring Business, there is no change in the investment policy/investment strategy and currency hedging tool and strategy after the transfer.

Shareholders' Fund and policy on shareholder dividends

4.20. ZLIC have an overall framework of making dividends to its owner ZIC. The amount of dividend is restricted by the capital ZLIC holds in relation to its risk appetite statements and other legal requirements. When making dividends the level of shareholders fund, solvency ratio and other metrics are considered.

4.21. The proposed transfer will have no material impact on the ZLIC shareholders' fund or on ZLIC's dividend policy.

Other considerations

Policyholder services

4.22. For unit-linked Non-Transferring Policyholders, the existing range of fund choices currently available to the long term Non-Transferring Policyholders of ZLIC will not be affected as a result of the Scheme implementation.

Reinsurance arrangements

4.23. The current reinsurance arrangements include a set of relatively minor risk reinsurance treaties outside of Hong Kong and a set of reinsurance treaties covering the Transferring Business. As the Hong Kong reinsurance treaties will be transferred along with the business. The other non-Hong Kong treaties are not impacted.

Distribution arrangements

4.24. Given that ZLIC Hong Kong branch is closed to new business, there are no active distribution agreements relating to the Transferring Business that needs to be considered. For Non-Transferring Business, there are multiple distribution agreements, but these will not be impacted by the transfer and hence there is no change to these.

Level of services

4.25. As the ZLIC HK branch portfolio is such a small portion of the overall ZLIC business, I have been informed that the transfer of these policies will have a negligible impact on the level of services provided to the Non-Transferring Policyholders.

Effect of the Scheme on the benefit expectations and financial security of the Existing ZLIHK Policyholders

5.1. In this section I consider the effects of the Scheme on the Existing ZLIHK Policyholders, given that ZLIHK started issuing policies in July 2020. There were 13 in-force Class A term policies as of September 2020. The total gross annualised premiums of these policies was HKD 103 thousand.

Benefit expectations

Contractual benefit provisions

5.2. Although the contractual benefits that will provided by ZLIHK have not been finalised, I have been informed by the Appointed Actuary of ZLIHK that there will be no change to the contractual benefits provided to the Existing ZLIHK Policyholders following the implementation of the Scheme, and that valid claims will continue to be paid when due in the same manner as before the Scheme.

Other policies subject to company discretion

5.3. ZLIHK has started to issue individual non-linked policies (Class A) after receiving its license approval on 23 March 2020. Unit-linked policies will be issued upon ZLIHK obtaining its necessary Class C product approvals from the regulatory bodies.

5.4. The Parties have informed me that for Class A business, in accordance with the ZLIHK's current 2020 plan, a new term product was launched in Q3 2020. ZLIHK will launch a new critical illness protection product by Q3 2021 and will continue monitoring Qualifying Deferred Annuity Policy ("QDAP") market developments assessing the possibility of launching such a retirement solution in the future. However, any annuity product will offer guaranteed cash values during the fixed annuity period and no discretionary component to align with ZLIHK's strategy of only offering non-participating Class A products. As the move into the QDAP sector is not decided and, even if it were to happen, sales volumes are expected to be small and therefore will not be included in the 2021 ZLIHK business plan which is currently in production. The Parties have also informed me that, due to recent COVID-19 pandemic, there will be a slight delay in launching various products, although the overall roadmap remains the same.

5.5. For Class C business with non-guaranteed fees and charges, ZLIHK will have the broad rights to vary policy charges, as well as the right to impose any other charges for administering the policy, provided that the policyholders will be given advance written notice before changes.

5.6. In conclusion, apart from the fact that these rights to vary unit-linked charges exist whether or not the Scheme proceeds and I have no reason to believe the Scheme will lead to a materially adverse exercise of discretion in relation to the Existing Policyholders of ZLIHK.

Policy terms and conditions

5.7. The Appointed Actuary of ZLIHK has confirmed that there will be no change to the policy terms and conditions of the Existing ZLIHK Policies as a result of the Scheme.

Financial security

5.8. Same as the comment I have made for the Transferring Policyholders, when considering the effects of the Scheme on the financial security of the Existing ZLIHK Policyholders, I have mainly considered the conservatism of the reserving bases that are planned to be used and the capital and free reserves, together with additional security provided by the entity as a whole, and any potential support available from its shareholders.

Policy reserves

5.9. ZLIHK is reporting under the Hong Kong regulatory regime, with the Appointed Actuary and the auditor certifying compliance with the Hong Kong Insurance Ordinance (CAP 41).

5.10. After the Scheme is implemented, the procedures will remain the same such that each year the Appointed Actuary of ZLIHK will advise on the reserving methods and valuation bases to the ZLIHK Board of Directors. As no changes in procedure in determining the valuation methodology and assumptions have been proposed if the Scheme is implemented, I do not believe there will be an adverse impact on the financial security of the Existing ZLIHK Policyholders in this regard.

Overall financial position and shareholders’ capital

5.11. The projected pre- and post-transfer solvency ratio of ZLIHK under HKIO basis as shown in Table 4 above are at a very high level; well above both the statutory minimum requirement and the level most insurance businesses are managed to.

5.12. Based on the projected post-transfer solvency ratio of ZLIHK under HKIO basis as at the Transfer Date and projection years thereafter as shown in Table 5, I have no reason to believe there will be any materially adverse impact on the financial security of the Existing ZLIHK Policyholders caused by the Scheme from a solvency perspective.

Other Considerations

Group Policy

5.13. Given the ultimate parent remains the same after the implementation of the Scheme and all the group policies will continue to apply, I do not expect there to be any materially adverse impact to the Existing ZLIHK Policyholders as a result of the change in group structure.

Conclusion

6.1. Taking into account of above considerations, in my opinion:

- The Scheme will not have a materially adverse effect on the reasonable expectations of the policyholders of ZLIC and ZLIHK, and in particular, the Transferring Policyholders of ZLIC HK branch, with regards to benefits and levels of service.
- The Scheme will not have a materially adverse effect on the financial security of the policyholders of ZLIC and ZLIHK, and in particular, the Transferring Policyholders of ZLIC HK branch.
- I am satisfied that the proposed Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Reliances and Limitations

7.1. This report is subject to the same reliances and limitations clauses as set out in the full version of my Independent Actuary report dated 29 March 2021.

Paul Sinnott

Fellow of the Institute and Faculty of Actuaries (FIA)

Independent Actuary

5 May 2021