

Important Update on 27 November 2020:

We would like to notify you of the following changes:

1. Please note that the date of the hearing of the petition for sanction of the Scheme of Transfer in Hong Kong by the Hong Kong Court has been rescheduled from 10 a.m. on 25 November 2020 to 10 a.m. on 7 December 2020.
2. Subject to the sanction of the Hong Kong Court, the effective date of the Scheme of Transfer will be changed to 1 February 2021 (instead of 1 December 2020).

Important Update on 20 November 2020:

Please note that the date of the hearing of the petition in Bermuda by the Bermuda Court has been rescheduled from 9:30 a.m. on 17 November 2020 to 10 a.m. on 24 November 2020.

The date of the hearing of the petition in Hong Kong by the Hong Kong Court remains unchanged, i.e. 10 a.m. on 25 November 2020.

Documents Related to Transfer of Class G Policies from FWD Life to Sun Life

1. Statutory Statement to Shareholders dated 16 October 2020
2. Statutory Statement to Policyholders dated 16 October 2020
3. Hong Kong Petition dated 11 September 2020
4. Bermuda Petition dated 23 September 2020
5. Scheme of Transfer as of 11 September 2020
6. Independent Actuary's Report dated 26 June 2019
7. Supplementary Report dated 14 August 2020

Statutory Statement to Shareholders
dated 16 October 2020

IMPORTANT INFORMATION

Dear Shareholder,

**Proposed transfer of the certain Class G long term insurance business of
FWD Life Insurance Company (Bermuda) Limited ("FWD") to
Sun Life Hong Kong Limited ("Sun Life")
(the "Proposed Transfer")**

This letter sets out important information regarding the Proposed Transfer of part of the Class G long term business of FWD in Hong Kong (i.e. certain Class G policies underwritten by FWD in Hong Kong, the **"Transferring Policies"**) to Sun Life. As a shareholder of FWD or Sun Life, 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 (Cap. 41) (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 on 11 September 2020.

As each of FWD and Sun Life is incorporated and registered as an insurer in Bermuda, an application has also been made on 23 September 2020 to the Supreme Court of Bermuda (**"Bermuda Court"**) for an order sanctioning the Scheme pursuant to section 25 of the Insurance Act 1978 of Bermuda (**"Act"**). The Scheme will be considered in the final hearings of the Hong Kong Court and the Bermuda Court. The transfer contemplated under the Scheme will not proceed unless it is approved, among others, by the Hong Kong Court and the Bermuda Court.

An independent actuary, Mr. Clement Bonnet, Fellow of the French Institute of Actuaries (the **"Independent Actuary"** or **"Approved Actuary"**), has been appointed by FWD and Sun Life to examine the terms of the Scheme and the likely effects of the Scheme on the long term policy holders of FWD and Sun Life and to prepare reports for the Hong Kong Court and the Bermuda Court. The Independent Actuary (or Approved Actuary) has prepared two reports consisting of: (i) a report prepared as of 31 December 2018 and dated 26 June 2019 (**"Independent Actuary's Report"** or **"Approved Actuary's Report"**); and (ii) a supplementary report prepared as of 31 December 2019 and dated 14 August 2020 (**"Supplementary Report"**)¹. Summaries of the

¹ In the Supplementary Report, the Independent Actuary (or Approved Actuary) has considered relevant developments brought to his attention by FWD and Sun Life since the completion of the Independent Actuary's Report (or Approved Actuary's Report). Both the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report are available for review by visiting the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, respectively, until the final hearings in the Hong Kong Court and the Bermuda Court. You may also obtain a copy of the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report free of charge by sending a written request to the offices of FWD and Sun Life at the addresses listed at page 3 below on or prior to the date of the final hearings to approve the transfer in the Hong Kong Court on 25 November 2020 and in the Bermuda Court on 17 November 2020.

Scheme and the Independent Actuary's Report (or Approved Actuary's Report) are included in Schedules 1 and 2 to this letter.

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 hearings of the Petition before the Hong Kong Court and the Bermuda Court, respectively. Please refer to the section "**Final Hearings**" in **Schedule 1 - Part 2: "Further Information on the Hearings"** for details. Unless you intend to appear at the hearing(s) of the Hong Kong Court or the Bermuda 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 on the Transferring Policies

If the Hong Kong Court and the Bermuda Court sanction the Scheme, all the Transferring Policies will be transferred from FWD to Sun Life. After completion of the Proposed Transfer, all the Transferring Policies will be administered by Sun Life, who will become the insurer of such policies in place of FWD. **All other terms and provisions of the policy(ies) will not change.**

Please refer to Schedule 1 to this letter for details on the arrangements if the transfer contemplated under the Scheme is approved by the Hong Kong Court and the Bermuda Court.

If the Scheme is not sanctioned by the Hong Kong Court or the Bermuda Court, the Proposed Transfer will not take place and the Transferring Policies will remain with FWD who will continue to be the insurer of such policies, including its administration and servicing. We will further notify you in writing if the Scheme is not sanctioned by the Hong Kong Court or the Bermuda Court.

The Scheme has been structured to ensure that the interests of the policy holders are safeguarded. **The Independent Actuary (or Approved Actuary) has opined, amongst others, on the likely effects of the Scheme on the reasonable benefit expectations of, the financial security of and the level of service to the long term policy holders of FWD and Sun Life. You are advised to refer to Part 1: "Key Assessment of the Independent Actuary (or Approved Actuary)" and Part 2: "Summary of the Independent Actuary's Report (or Approved Actuary's Report)" in Schedule 2.**

Further Information

If you wish to obtain further information, you may:

- inspect copies of this letter, of the petitions filed at the Hong Kong Court and the Bermuda Court, of the Scheme and of the reports of the Independent Actuary (or Approved Actuary) at the addresses of FWD, Sun Life, or Baker & McKenzie (solicitors for FWD and Sun Life) below during the following periods between 9 a.m. to 5 p.m. (local time), on normal business days (Monday to Friday (except public holidays)):

Hong Kong: from 16 October 2020 to 6 November 2020

Bermuda: from 16 October 2020 to 6 November 2020

(i.e. for a period of at least 21 calendar days (inclusive of weekend days and public holidays) from the date of this notice.)

- visit the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, respectively, until the final hearings in the Hong Kong Court and the Bermuda Court; and/or
- obtain the above documents free of charge by writing to the offices of FWD and Sun Life at the addresses below on or prior to the date of the final hearings.

FWD	Hong Kong	28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong
	Bermuda	Canon's Court, 22 Victoria Street, Hamilton, Bermuda, Appleby (Bermuda) Limited, solicitors for FWD
Sun Life	Hong Kong	16/F, Cheung Kei Center Tower A, No. 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong
	Bermuda	Canon's Court, 22 Victoria Street, Hamilton, Bermuda, Appleby (Bermuda) Limited, solicitors for Sun Life
Baker & McKenzie	Hong Kong	14/F , One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

Note: The documents available at Baker & McKenzie are this letter, the Hong Kong petition, the Scheme, the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report only, excluding the Bermuda petition

If you have any questions about the Proposed Transfer, please contact FWD at (852) 3123 3123 or Sun Life at (852)3183 1900, or write to FWD or Sun Life at the addresses above, marking your envelope "FWD / Sun Life Insurance Portfolio Transfer", or alternatively e-mail your question to cs.hk@fwd.com or customerservicempf@bestserve.com.

Yours sincerely,

Chief Executive Officer

FWD Life Insurance Company (Bermuda) Limited (Incorporated in Bermuda with limited liability)

Chief Executive Officer

Sun Life Hong Kong Limited (Incorporated in Bermuda with limited liability)

Schedule 1

Part 1

SUMMARY OF THE SCHEME

Background and Purpose of the Proposed Transfer

FWD was incorporated in Bermuda on 13 April 1977, under the name of Rauco Insurance Company Limited. FWD is part of the FWD Group, which is the insurance business arm of investment group, Pacific Century Group, with minority shareholders, including Swiss Re Group. The principal business activity of FWD is the carrying on of certain classes of long term business in Hong Kong.

FWD is regulated in Bermuda by the Bermuda Monetary Authority ("**BMA**") and has a class E and a class 3 licence under the Bermuda Insurance Act 1978 ("**Act**"). FWD is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong, "**CO**"). FWD is an authorized insurer under the Ordinance.

Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life is wholly-owned by Sun Life Assurance Company of Canada, a company incorporated in Canada. Sun Life is regulated in Bermuda by the BMA and has a class E licence under the Act. Sun Life is registered in Hong Kong as a non-Hong Kong company under the CO. The principal business activity of Sun Life is the carrying on of certain classes of long term business in Hong Kong. Sun Life is an authorized insurer under the Ordinance.

On 3 August 2016, FWD Management Holdings Limited and Sun Life entered into an implementation agreement ("**Implementation Agreement**") in relation to the disposal of the following FWD's MPF and ORSO businesses in Hong Kong:

- (i) Sun Life MPF Basic Scheme (永明強積金基本計劃) (formerly known as FWD MPF Master Trust Basic Scheme (富衛強積金集成信託基本計劃));
- (ii) Sun Life MPF Comprehensive Scheme (永明強積金綜合計劃) (formerly known as FWD

MPF Master Trust Comprehensive Scheme (富衛強積金集成信託綜合計劃);

- (iii) the Class G policies underlying the Sun Life MPF Master Trust;
- (iv) FWD Capital Guaranteed Plan; and
- (v) FWD Multi-Funding Provident Plan,

(the MPF Schemes in (i) to (iii) are referred to as the "**MPF Schemes**", and the ORSO schemes in (iv) to (v) are referred to as the "**ORSO Schemes**").

The disposal includes, inter alia, the transfer from FWD to Sun Life of certain Class G policies underlying the MPF Schemes and ORSO Schemes.

As at 31 December 2019, there are 71 Class G policies underlying the MPF Schemes and ORSO Schemes, as detailed in the Schedule to the Scheme ("**Transferring Policies**"). The transfer of the Business (as defined below), which includes the Transferring Policies, is therefore part of the transaction contemplated under the Implementation Agreement.

As at 31 December 2019, Sun Life has 80 Class G policies issued and maintained for its MPF and ORSO schemes in Hong Kong. It is expected that the proposed transfer of the Business (as defined below), including the Transferring Policies, will add scale to Sun Life's existing Class G long term business while capitalizing on Sun Life's expertise in retirement products. Further, this should offer economies of scale, and enhance operational efficiencies and service standards of the relevant businesses.

The Proposed Transfer

It is proposed that, pursuant to section 24 of the Ordinance and section 25 of the Act, certain Class G long term business of FWD in Hong Kong ("**Business**"), including the Transferring Policies and the assets and liabilities attributable thereto, shall be transferred from FWD to Sun Life 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 Ordinance and the order of the Bermuda Court ("**Bermuda Order**") made pursuant to section 25 of the Act.

Transfer Date

The transfer date ("**Transfer Date**") is 12:01 a.m. (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the order of the Hong Kong Court is granted and the order of the Bermuda Court is granted, in each case sanctioning the Scheme. Subject to the grants of the orders, it is expected that the Transfer Date will take effect on 1 December 2020, but it may be subject to change.

Transfer of Assets and Liabilities

With effect from the Transfer Date, (i) all the assets of FWD (including any right or benefit of FWD under the Transferring Policies) as are attributable to the Business, wherever situated, which shall be transferred to Sun Life pursuant to the Implementation Agreement ("**Transferring Assets**"), will be transferred by FWD to, and vested in, Sun Life subject to any encumbrances in respect thereof; and (ii) all liabilities of FWD as at the Transfer Date attributable to the Business (whether present, future or contingent) under and in relation to the Transferring Policies (which shall be transferred to Sun Life pursuant to the Sale and Purchase Agreement) ("**Transferring Liabilities**"), will be transferred to and become liabilities of Sun Life, and FWD shall be entirely released therefrom.

Where there are any assets or liabilities of FWD which would otherwise form part of the Transferring Assets or Transferring Liabilities respectively as at the Transfer Date, but which cannot be transferred to Sun Life for any reasons (referred to as "**Residual Assets**" and "**Residual Liabilities**"), they will be transferred to Sun Life on subsequent transfer date(s) after the Transfer Date in accordance with the terms of the Scheme.

Transfer of Policies

With effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD under, and be bound by all terms and conditions of, the Transferring Policies. The Transferring Policies shall form part of Sun Life's long term business from the Transfer Date.

Transfer of Records

With effect from the Transfer Date, all statutory records and other information relating to the policy holders, insureds, beneficiaries and assignees of, or any other persons relating to, the Transferring Policies, including, without limitation, their personal data, which is held by FWD shall be transferred to Sun Life, and Sun Life shall have the same rights and powers in holding and using (and transferring) such information as those of FWD prior to the Transfer Date.

Continuation of Proceedings

From the Transfer Date, with respect to the Transferring Policies, Transferring Assets and Transferring Liabilities (or from the subsequent transfer date(s) with respect to Residual Assets and Residual Liabilities), any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings pending by or against FWD shall be continued by or against Sun Life in substitution for FWD, and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

New Sun Life Insurance Funds

On and with effect from the Transfer Date, (i) Sun Life shall establish three new sub-funds under the Sun Life Class G Fund, namely: the New MPF Sub-Fund (Class G), New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G), which shall be maintained by Sun Life as separate sub-accounts under the Sun Life Class G Fund (the New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G) shall be referred to as the "**New ORSO Sub-Funds (Class G)**"); and on and with effect from the Transfer Date, all Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); and all Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).

Premiums, Mandates and Other Instructions

Premiums and other sums payable to FWD in respect of the Transferring Policies will automatically become payable to Sun Life on or after the Transfer Date. Mandates or other instructions regarding the

payment of any sums by FWD in respect of such policies will be transferred to Sun Life.

Costs of the Scheme

No expenses of the Scheme will be borne, directly or indirectly, by any policy holder. All expenses will be paid by FWD and Sun Life in equal share out of their respective shareholders' funds.

Governing Law

This Scheme shall be governed by the laws of Hong Kong subject to any procedural issues in connection with the Petition under section 25 of the Act being governed by Bermuda law.

Part 2

FURTHER INFORMATION ON THE HEARINGS

Final Hearings

The Petition for sanction of the Scheme will be heard at the Hong Kong Court in Hong Kong and the Bermuda Court in Bermuda, respectively. We anticipate that the final hearings, at which the Hong Kong Court and the Bermuda Court will consider whether or not to sanction the Scheme, will take place, respectively, at 10 a.m. on 25 November 2020 and 9:30 a.m. on 17 November 2020.

The Ordinance and the Act 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 hearings of the Petition before the Hong Kong Court and the Bermuda Court, respectively.

If you do intend to appear at the hearing of the Hong Kong Court or the Bermuda Court, we request you give preferably not less than seven (7) calendar days' prior written notice of such intention, and the reasons therefore, to the solicitors of FWD and Sun Life at the following address:-

For the hearing of the Hong Kong Court:

Baker & McKenzie
14/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

(All letters should be marked in English "FWD / Sun Life Insurance Portfolio Transfer" for the attention of Mr. Martin Tam or in Chinese "「富衛 / 永明保險組合轉讓」" for the attention of 譚志偉律師 E-mail: martin.tam@bakermckenzie.com)

For the hearing of the Bermuda Court:

Appleby
Canon's Court, 22 Victoria Street, Hamilton,
Bermuda

(All letters should be marked in English "FWD / Sun Life Insurance Portfolio Transfer" for the attention of Mr John Wasty E-mail: jwasty@applebyglobal.com)

If you intend to object to the Scheme but do not wish to appear at the hearing of the Hong Kong Court or the Bermuda Court, you should give not less than seven (7) calendar days' prior written notice of such intention, and the reasons therefor, to the solicitors of FWD and Sun Life at the addresses above.

Key Dates

You are therefore reminded to note the following key dates:

Event	No. of calendar days from the date of this Circular	Key Dates
Deadline to file an objection to the Scheme in the Bermuda Court	25	10 November 2020
Date of Court hearing in Bermuda to approve the Scheme	32	17 November 2020
Date of Court hearing in Hong Kong to approve the Scheme	40	25 November 2020

Schedule 2

Part 1: Key Assessment of the Independent Actuary (or Approved Actuary)

The Independent Actuary (or Approved Actuary) has opined in both the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report, in particular, that:

- (i) The Scheme will have no material adverse effect on the reasonable benefit expectations of the policy holders of the Transferring Policies and the non-transferring policies of FWD or the existing policy holders of Sun Life.
- (ii) The Scheme will have no material adverse effect on the financial security of the policy holders of the Transferring Policies and the non-transferring policies of FWD or the existing policy holders of Sun Life.
- (iii) The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
- (iv) He is satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Part 2: Summary of the Independent Actuary's Report (or Approved Actuary's Report)

The Independent Actuary (or Approved Actuary) has prepared two reports consisting of: (i) the Independent Actuary's Report (or Approved Actuary's Report); and (ii) the Supplementary Report².

Summary of the Independent Actuary's Report (or Approved Actuary's Report)

Introduction

- 1.1. I, Clement Bonnet, have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41, and as the Approved Actuary pursuant to Section 25 of the Bermuda Insurance Act 1978 ("Approved Actuary"), to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of certain long term pension business from FWD Life Insurance Company (Bermuda) Limited ("FWD") to Sun Life Hong Kong Limited ("Sun Life"). These two companies are collectively referred to herein as the "Parties". The long term business involved is referred to as the "Transferring Business" and comprises the Class G insurance policies, excluding the four internal retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"), written by FWD before the date the Scheme takes into effect (the "Transfer Date"). The Class G policies are currently issued to trustees or employers of mandatory provident funds ("MPF") schemes and occupational retirement ("ORSO") schemes. The trustees or employers taking out these Class G insurance policies are collectively referred to herein as the "Transferring Policy holders"
- 1.2. I am a Fellow member of the Actuarial Society of Hong Kong and a Fellow member of the French Institute of Actuaries. I am a Principal and Consulting Actuary of Milliman Limited, residing of 3901-2, AIA Tower, 183 Electric Road, North Point, Hong Kong ("Milliman").
- 1.3. In preparing my Independent Actuary's Report (or Approved Actuary's Report) on the Scheme, I consulted the Insurance Authority ("HK IA") on the required contents and incorporated suggestions from the HK IA as appropriate. I have used (i) section 2 paragraphs 31 to 41 of the Prudential Regulation Authority (PRA) as well as

² The Independent Actuary's Report (or Approved Actuary's Report) was prepared as of 31 December 2018 and dated 26 June 2019 and the Supplementary Report was prepared as of 31 December 2019 and dated 14 August 2020.

In the Supplementary Report, the Independent Actuary (or Approved Actuary) has considered relevant developments brought to his attention by FWD and Sun Life since the completion of the Independent Actuary's Report (or Approved Actuary's Report). Both the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report are available for review by visiting the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, respectively, until the final hearings in the Hong Kong Court and the Bermuda Court. You may also obtain a copy of the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report free of charge by sending a written request to the offices of FWD and Sun Life at the addresses listed at page 3 above on or prior to the date of the final hearings to approve the transfer in the Hong Kong Court on 25 November 2020 and in the Bermuda Court on 17 November 2020.

Chapter 18 of the Supervision Manual (“SUP 18”) contained in the Financial Conduct Authority (“FCA”) Handbook; and (ii) Section 25 of the Bermuda Insurance Act 1978, as a reference basis. I also have had regard to the guidance published by the FCA in May 2018 (“FG18/4: The FCA’s approach to the review of Part VII insurance business transfers”) on its approach to the review of Part VII insurance business transfers. The scope of my review and opinions are confined to the effects of the Scheme on the long term policy holders of FWD and Sun Life. It does not include an assessment of the impact of the Scheme on the shareholders of either company. I have considered the Scheme as presented to me and have not considered any other alternative schemes.

- 1.4. 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 representatives of the Parties.

Summary and Overview

- 1.5. The rationale behind this transfer is to allow Sun Life to acquire the pension business from FWD, expanding Sun Life’s presence in Asian Wealth Management space in a low capital and fee-based business, and adding scale to Sun Life existing pension business resulting in a reduction of expenses per member.
- 1.6. In my opinion,
 - The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.
- 1.7. In arriving at my opinion, I have considered various aspects below. More detailed discussions are provided in the full version of my report.

Effect of Scheme on benefit expectations of Transferring Policy holders

Discretionary benefits of the Transferring Business

- 1.8. On the Transfer Date FWD will transfer all Class G policies under and in respect of the MPF schemes and ORSO schemes, except FWD Retained ORSO Business.
 - FWD MPF Capital Guarantee Portfolio (“FWD MPF CG”) is a unitised fund with price equal to the net asset value. The net asset value increases based on the actual return less applicable administration fees, trustee fee and guarantee fee. FWD MPF CG guarantees that the capital will be preserved at the end of every 5-year period of continuous investment or over a shorter period if the member reaches the age of 65.

- The discretionary benefits of FWD ORSO business are affected by a discretionary crediting rate which is subject to a minimum guaranteed rate. The same crediting rate philosophy is applied to all ORSO schemes offered by FWD.
- 1.9. Sun Life has undertaken to follow the current approach adopted by FWD to determine the discretionary benefits. In particular crediting rates will be reviewed at least annually, taking into account policy holders' reasonable expectations and the market environment. Sun Life's objective is to provide continuity to policy holders and to establish policies and practices similar to FWD to the extent practicable. Similar to FWD, Sun Life will review the methodology on a regular basis as a result of the normal review process.
- 1.10. In light of my review, it is my opinion that the discretionary benefits setting principles and methodologies, and the required procedures for any changes to the existing approach, which are intended to be used by Sun Life after the transfer, provide sufficient safeguards that policy holders should expect to be treated in a similar manner before and after the transfer.

Asset allocation and investment policy of the Transferring Business

- 1.11. Investment policies for the transferring Class G funds will be maintained separately from Sun Life's existing Class G funds. In particular, there will not be significant change to the target asset allocations and the investment policies after the transfer. Similar to the governance process for existing Sun Life Class G funds, investment policies for the Transferring Business will be maintained and endorsed by Sun Life ALM Committee and approved by Sun Life Financial Asia ALM Committee. The investment policies and asset allocations for the transferring funds will not be subject to material changes from FWD existing policies. Based on these considerations, I have no reason to believe that the Scheme will have a material adverse effect on the reasonable benefit expectations of the Transferring Policy holders in this regard.

Discretionary charges of the Transferring Business

- 1.12. FWD has broad rights to vary policy charges, as well as the right to impose any other charges for administering the policy. All scheme members and participating employers would be given written notice in advance according to policy provisions before any changes come into effect. These rights will continue with Sun Life and exist whether or not the Scheme proceeds.
- 1.13. I have been informed by Sun Life that the current charge level for the Transferring Business will not change materially as a result of the transfer. In particular no other fees would be applied to the Transferring Business. 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 Policy holders.

Contractual guaranteed benefits provisions

- 1.14. According to the Scheme, Sun Life will commit to continue paying the guaranteed benefits of the Transferring Policy holders of FWD. The rights of these policy holders, as defined under their existing policy documents, will be the same before and after the transfer.

Costs and expenses in relation to the Scheme

- 1.15. The total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's Shareholders' Funds. Sun Life 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 policy holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, I have no reason to believe there will be any material adverse impact on the Transferring Policy holders in this regard.

Tax implications

- 1.16. Both FWD and Sun Life are using the Hong Kong profit tax rate of 16.5% to calculate the tax of the Class G business. No tax balances will be transferred from FWD to Sun Life as a result of the transfer. Hence the tax regime of the Transferring Business will be unchanged and the proposed transfer will have no impact on the reasonable benefit expectation of policy holders in this regard.

Policy terms and conditions

- 1.17. I have been informed that there will be no change to the policy terms and conditions of Transferring Business as a result of Scheme implementation. I have no reason to believe there will be a material adverse impact on the policy terms and conditions caused by the Scheme.

Effect of Scheme on benefit expectations of non-transferring FWD policy holders and existing Sun Life policy holders

Discretionary benefits

- 1.18. The principles and methods currently adopted by FWD in determining dividends for its in-force participating policies and discretionary interest rates on universal life policies will not be changed after the proposed transfer. After the transfer, part of the overhead expenses in relation to the retirement business (less than 3% of the total expenses based on a study of the pension expenses incurred by FWD for the period 2014-2018) will not be eliminated and will be allocated to the remaining business. However, FWD does not expect any material increase in unit cost and any material adverse impact on dividend payment and crediting rates (the main factor affecting the dividend and crediting rate being the investment experience). For non-participating life policies and investment linked policies, FWD currently has broad rights to adjust premium and change fees or charges. These rights exist whether or not the Scheme proceeds.
- 1.19. For the five internal Class G plans which will remain with FWD, FWD has no intention to change the investment strategy or the crediting rate philosophy as a result of the Transfer. Any future review or change will undergo the same review process as the one before the transfer. However, due to the decrease in asset under management in 2018 and the potential increase in investment expense, FWD has intention to outsource the investment of FWD Retained ORSO Business, keeping the investment objectives unchanged and continuing offering the same guarantee. In any event, FWD will ensure compliance with the requirements of GL14 "Guideline on Outsourcing" and will go through the necessary regulatory approval process.
- 1.20. Sun Life will maintain the Transferring Business separately from Sun Life's existing business, and in particular Sun Life's existing Class G business. For existing policy holders, contractual guaranteed benefits will remain unchanged.

- 1.21. In light of my review, it is my opinion that current discretionary benefits setting principles and methodologies for the non-transferring FWD and the existing Sun Life policy holders will not be affected by the Scheme.

Asset allocation and investment policy

- 1.22. Both FWD and Sun Life have no intention to change the investment strategies currently adopted for the assets supporting the existing policies after the proposed transfer. I have no reason to believe that the Scheme will have a material adverse impact on the reasonable benefits expectations of the non-transferring FWD policy holders and existing Sun Life policy holders in this regard.

Policy terms and conditions

- 1.23. There will be no change to the policy terms and conditions of the FWD non-transferring and Sun Life existing business as a result of Scheme implementation. I have no reason to believe there will be a material adverse impact on the policy terms and conditions of non-transferring FWD policy holders and existing Sun Life policy holders caused by the Scheme implementation.

Costs and expenses in relation to the Scheme

- 1.24. The total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's Shareholders' Funds. FWD and Sun Life have 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 policy holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, I have no reason to believe there will be a material adverse impact on the long term policy holders of FWD and Sun Life in this regard.

Effect on the Financial Security of Transferring Policy holders

The provision of financial security

- 1.25. To protect the security of policy holders, insurance companies maintain three asset layers namely policy reserves, minimum solvency margin and surplus, with the first two layers required by the legislation:
- Policy reserves: assets supporting the policy liabilities calculated according to the underlying contractual obligations, calculated under the valuation standards prescribed by statutory rules and are prudent.
 - Minimum solvency margin: assets required to fulfil the minimum solvency requirements, which serve as a margin relating to the risks of liabilities undertaken by the insurers. For long term business written under Class G, there is no additional solvency margin required in Hong Kong.
 - Surplus: amount of excess assets held by an insurer over and above the statutory minimum solvency margin provides an indicator of its financial strength and solvency position.

- 1.26. In addition to these three asset layers, insurance companies are required to examine annually the financial position of the overall business under a number of adverse scenarios as prescribed by the Actuarial Guidance Note 7 (“AGN7”) on Dynamic Solvency Testing (“DST”) issued by the Actuarial Society of Hong Kong and required by the HK IA.

Policy reserves

- 1.27. FWD has established the statutory reserves for Class G long term business as the sum of:
- accumulation of contributions paid into the fund, reduced by applicable expenses, fees or charges, and increased by interest credited in accordance with the applicable guaranteed rate or declared rate (“Account Balance”);
 - provisions for investment guarantee (“GL7 reserves”); and
 - additional smoothing reserves.
- 1.28. After the transfer, Sun Life will continue holding GL7 reserves for the Transferring Business in accordance with the Hong Kong regulatory standards. In addition, Sun Life will continue holding a smoothing reserve for both ORSO and MPF business using a methodology similar to FWD’s.
- 1.29. At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business:
- The minimum GL7 reserve will be split at Transfer Date between the FWD Retained ORSO Business and the Transferring ORSO business based on the account balance. The amount of GL7 reserve in respect of the Transferring Business will be held by Sun Life after the transfer and there will be no change in GL7 reserve for the Transferring Policy holders.
 - Both parties agree to transfer the entire ORSO smoothing reserve to Sun Life, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO business, leading to a higher smoothing reserve for the Transferring Business after the Transfer.

- 1.30. In conclusion, the reserves held after the transfer will be higher than the reserves held by FWD before the transfer. In addition, the methodology is not expected to be changed materially. Therefore it is my opinion that the changes in procedures in determining the valuation methodology before and after the transfer will not materially adversely impact the financial security of the Transferring Policy holders of FWD.

Solvency position, overall financial position and dynamic solvency testing

- 1.31. The overall financial position of the Transferring Business does not only depend on the amount of statutory reserves but also on the level of surplus and capital. As there is no additional solvency margin required in Hong Kong for Class G business on top of the existing GL7 reserve, I have considered in more detail the free asset ratio (defined as the ratio of surplus (net asset minus statutory solvency margin) divided by the total liabilities including statutory solvency margin) before and after the transfer. As at 31 December 2018, based on the HKFRS accounts, FWD free asset ratio was 4.6% before transfer, while Sun Life free asset ratio was 6.2% after transfer.
- 1.32. In addition, there have been DST projections which examine the solvency positions of the Parties before and after the proposed transfer under a number of plausible scenarios. The projections show that
- the future solvency positions of both FWD before the transfer and Sun Life after the transfer remain satisfactory and above the regulatory requirement under all prescribed scenarios.
 - there is no material difference in the future solvency position of both FWD and Sun Life whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of both FWD and Sun Life total portfolio.

Risk exposures

- 1.33. The risk exposure of the Parties is not impacted by whether or not the proposed transfer is executed. Overall, the Transferring Business only accounts for about 5% of the total Sun Life liabilities and the additional risk introduced as a result of the transfer is not deemed material.
- 1.34. 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 the Transferring Policy holders, and hence the Scheme will not materially adversely affect the financial security of the Transferring Policy holders.

Investment policy

- 1.35. As the invested assets supporting the transferring policies of FWD will be managed separately from the assets supporting the existing policies of Sun Life (and in line with previous FWD practices), there will be no conflicting investment objectives to reconcile, or varying operational standards to be aligned.

Financial Security Conclusion

- 1.36. In my opinion, the Scheme will have no material adverse effect on the financial security of the Transferring Policy holders.

Effect on the Financial Security of Non-transferring FWD Policy holders and Existing Sun Life Policy holders

Policy reserves

- 1.37. Both FWD and Sun Life will continue using the same established methods and processes. In particular, for the FWD Retained ORSO Business of FWD, the same established methods and processes will be used to calculate the GL7 reserve and smoothing reserve. At Transfer Date, the GL7 reserve and smoothing reserve will be apportioned proportionally.
- The minimum GL7 reserve for ORSO business will be split by FWD between the FWD Retained ORSO Business and the Transferring ORSO business based on the Account Balance. Even though historically the two categories were managed in aggregate, this split is assessed to be reasonable based on an analysis produced by FWD. In particular the GL7 reserve is assessed to be not materially different between the two groups of policies in views of the average historical persistency experience, risk profile and nature of guarantee.
 - The smoothing reserve for ORSO business is split between the FWD Retained ORSO Business and the Transferring ORSO business based on the Account Balance. Even though the entire ORSO smoothing reserve will be transferred to Sun Life at Transfer Date, FWD will set up smoothing reserve for the FWD Retained ORSO Business after the transfer equal to the smoothing reserve before the transfer (i.e. based on the split of the total smoothing reserve based on the Account Balance).
- 1.38. Hence, in my view there will be no material adverse impact on the financial security of the non-transferring FWD policy holders and existing Sun Life policy holders in this regard.

Solvency positions and overall financial position

- 1.39. The DST projections provided show that the future solvency positions of both FWD and Sun Life remain satisfactory and above the regulatory requirement under all prescribed scenarios. In addition, there is no material difference in the future solvency position of both FWD and Sun Life whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of both FWD and Sun Life total portfolio.

Dynamic solvency testing and risk exposure

- 1.40. The DST results show that, whether the Scheme is implemented or not, the future solvency positions of both FWD and existing Sun Life have similar sensitivities under the scenarios tested. As a result, I consider that the risk exposures for non-transferring FWD and Sun Life policy holders will have no material change after the implementation of the Scheme.

Investment policy

- 1.41. Both FWD and Sun Life have confirmed that they will continue to operate the investment portfolio in exactly the same manner as their respective investment policies and guidelines. Any future changes to these investment policies will undergo the same review process as a normal course of business.

Financial Security Conclusion

- 1.42. In my opinion, the Scheme will have no material adverse effect on the financial security of the non-Transferring Policy holders of FWD and no material adverse effect on the financial security of the existing policy holders of Sun Life.

Other Considerations

Policy holder services

- 1.43. There is no intention to change the level of existing service to the remaining policy holders of FWD as a result of the Transfer. For the Transferring Policy holders, the existing range of fund choices currently available to them will be maintained after the proposed transfer. In addition, the policy holders will continue being serviced by BestServe (BestServe is a fellow subsidiary of Sun Life, and FWD outsourced part of the pension operations to BestServe).

Reinsurance arrangements

- 1.44. There is no reinsurance in place with respect to the Transferring Business. For the remaining business of FWD and Sun Life, the existing reinsurance arrangements will not be affected as a result of the transfer.

Distribution agreement

- 1.45. FWD and Sun Life have entered into a 15-year exclusive distribution agreement allowing Sun Life to offer MPF and ORSO schemes through FWD's agency networks in Hong Kong. There will be no impact to the remaining policy holders of FWD.

Conclusion

- 1.46. I have concluded that:
- The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Reliances and Limitations

- 1.47. This report is subject to the same reliances and limitations clauses as set out in the full version of my Independent Actuary's Report (or Approved Actuary's Report) dated 26 June 2019 (as confirmed at section 1.8 of the Supplementary Report).

Clement Bonnet
Independent Actuary
(or Approved Actuary)
26 June 2019

Statutory Statement to Policyholders
dated 16 October 2020

CIRCULAR TO POLICYHOLDERS

RE: SCHEME OF TRANSFER OF CERTAIN LONG TERM INSURANCE BUSINESS FROM
FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED TO SUN LIFE HONG KONG
LIMITED

16 October 2020

Dear Policyholder,

**Proposed transfer of the certain Class G long term insurance business of
FWD Life Insurance Company (Bermuda) Limited ("FWD") to
Sun Life Hong Kong Limited ("Sun Life")
(the "Proposed Transfer")**

This letter sets out important information regarding the Proposed Transfer of part of the Class G long term business of FWD in Hong Kong (i.e. certain Class G policies underwritten by FWD in Hong Kong, the "**Transferring Policies**") to Sun Life. Your policy(ies) will be included in 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 (Cap. 41) (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 on 11 September 2020.

As each of FWD and Sun Life is incorporated and registered as an insurer in Bermuda, an application has also been made on 23 September 2020 to the Supreme Court of Bermuda ("**Bermuda Court**") for an order sanctioning the Scheme pursuant to section 25 of the Insurance Act 1978 of Bermuda ("**Act**"). The Scheme will be considered in the final hearings of the Hong Kong Court and the Bermuda Court. The transfer contemplated under the Scheme will not proceed unless it is approved, among others, by the Hong Kong Court and the Bermuda Court.

An independent actuary, Mr. Clement Bonnet, Fellow of the French Institute of Actuaries (the "**Independent Actuary**" or "**Approved Actuary**"), has been appointed by FWD and Sun Life to examine the terms of the Scheme and the likely effects of the Scheme on the long term policy holders of FWD and Sun Life and to prepare reports for the Hong Kong Court and the Bermuda Court. The Independent Actuary (or Approved Actuary) has prepared two reports consisting of: (i) a report prepared as of 31 December 2018 and dated 26 June 2019 ("**Independent Actuary's Report**" or "**Approved Actuary's Report**"); and (ii) a supplementary report prepared as of 31 December 2019 and dated 14 August 2020 ("**Supplementary Report**")¹. Summaries of

¹ In the Supplementary Report, the Independent Actuary (or Approved Actuary) has considered relevant developments brought to his attention by FWD and Sun Life since the completion of the Independent Actuary's Report (or Approved Actuary's Report). Both the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report are available for review by visiting the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, respectively, until the final hearings in the Hong Kong Court and the Bermuda Court. You may also obtain a copy of the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report free of charge by sending a written request to the offices of FWD and Sun Life at the addresses listed at page 3 below on or

the Scheme and the Independent Actuary's Report (or Approved Actuary's Report) are included in Schedules 1 and 2 to this letter.

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 hearings of the Petition before the Hong Kong Court and the Bermuda Court, respectively. Please refer to the section **"Final Hearings"** in **Schedule 1 - Part 2: "Further Information on the Hearings"** for details. Unless you intend to appear at the hearing(s) of the Hong Kong Court or the Bermuda 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.

How the Proposed Transfer affects you?

If the Hong Kong Court and the Bermuda Court sanction the Scheme, all the Transferring Policies, including your policy(ies), will be transferred from FWD to Sun Life. After completion of the Proposed Transfer, all the Transferring Policies will be administered by Sun Life, who will become the insurer of such policies in place of FWD. **Please rest assured that all other terms and provisions of your policy(ies) will not change.** Please note that if you do not wish to be involved in the Proposed Transfer, your rights are limited to the right to terminate your policy(ies) in accordance with the terms of your policy(ies). In such case, the accrued benefits under your policy(ies) and other assets will be transferred to another policy(ies) which may be taken out by you to replace your policy(ies) with us. You will not be required to bear any costs in relation to termination of your policy(ies), and the termination process will be carried out under the normal procedures as set out in the offering document(s) of your policy(ies).

You are advised to refer to Schedule 1 to this letter for details on the arrangements if the transfer contemplated under the Scheme is approved by the Hong Kong Court and the Bermuda Court.

If the Scheme is not sanctioned by the Hong Kong Court or the Bermuda Court, the Proposed Transfer will not take place and the Transferring Policies, including your policy(ies), will remain with FWD who will continue to be the insurer of such policies, including its administration and servicing. We will further notify you in writing if the Scheme is not sanctioned by the Hong Kong Court or the Bermuda Court.

The Scheme has been structured to ensure that the interests of the policy holders are safeguarded. **The Independent Actuary (or Approved Actuary) has opined, amongst others, on the likely effects of the Scheme on the reasonable benefit expectations of, the financial security of and the level of service to the long term policy holders of FWD and Sun Life. You are advised to refer to Part 1: "Key Assessment of the Independent Actuary (or Approved Actuary)" and Part 2: "Summary of the Independent Actuary's Report (or Approved Actuary's Report)" in Schedule 2.**

prior to the date of the final hearings to approve the transfer in the Hong Kong Court on 25 November 2020 and in the Bermuda Court on 17 November 2020.

Further Information

If you wish to obtain further information, you may:

- inspect copies of this letter, of the petitions filed at the Hong Kong Court and the Bermuda Court, of the Scheme and of the reports of the Independent Actuary (or Approved Actuary) at the addresses of FWD, Sun Life, or Baker & McKenzie (solicitors for FWD and Sun Life) below during the following periods between 9 a.m. to 5 p.m. (local time), on normal business days (Monday to Friday (except public holidays)):

Hong Kong: from 16 October 2020 to 6 November 2020

Bermuda: from 16 October 2020 to 6 November 2020

(i.e. for a period of at least 21 calendar days (inclusive of weekend days and public holidays) from the date of this Circular.)

- visit the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, respectively, until the final hearings in the Hong Kong Court and the Bermuda Court; and/or
- obtain the above documents free of charge by writing to the offices of FWD and Sun Life at the addresses below on or prior to the date of the final hearings.

FWD	Hong Kong	28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong
	Bermuda	Canon's Court, 22 Victoria Street, Hamilton, Bermuda, Appleby (Bermuda) Limited, solicitors for FWD
Sun Life	Hong Kong	16/F Cheung Kei Center Tower A, No. 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong
	Bermuda	Canon's Court, 22 Victoria Street, Hamilton, Bermuda, Appleby (Bermuda) Limited, solicitors for Sun Life
Baker & McKenzie	Hong Kong	14/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

Note: The documents available at Baker & McKenzie are this letter, the Hong Kong petition, the Scheme, the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report only, excluding the Bermuda petition.

If you have any questions about the Proposed Transfer, please contact FWD at (852) 3123 3123 or Sun Life at (852) 3183 1900; or write to FWD or Sun Life at the addresses above, marking your envelope "FWD / Sun Life Insurance Portfolio Transfer"; or alternatively e-mail your question to cs.hk@fwd.com or customerservicempf@bestserve.com.

Yours sincerely,

Chief Executive Officer

FWD Life Insurance Company (Bermuda) Limited (Incorporated in Bermuda with limited liability)

Chief Executive Officer

Sun Life Hong Kong Limited (Incorporated in Bermuda with limited liability)

Schedule 1

Part 1

SUMMARY OF THE SCHEME

Background and Purpose of the Proposed Transfer

FWD was incorporated in Bermuda on 13 April 1977, under the name of Rauco Insurance Company Limited. FWD is part of the FWD Group, which is the insurance business arm of investment group, Pacific Century Group, with minority shareholders, including Swiss Re Group. The principal business activity of FWD is the carrying on of certain classes of long term business in Hong Kong.

FWD is regulated in Bermuda by the Bermuda Monetary Authority ("**BMA**") and has a class E and a class 3 licence under the Bermuda Insurance Act 1978 ("**Act**"). FWD is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong, "**CO**"). FWD is an authorized insurer under the Ordinance.

Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life is wholly-owned by Sun Life Assurance Company of Canada, a company incorporated in Canada. Sun Life is regulated in Bermuda by the BMA and has a class E licence under the Act. Sun Life is registered in Hong Kong as a non-Hong Kong company under the CO. The principal business activity of Sun Life is the carrying on of certain classes of long term business in Hong Kong. Sun Life is an authorized insurer under the Ordinance.

On 3 August 2016, FWD Management Holdings Limited and Sun Life entered into an implementation agreement ("**Implementation Agreement**") in relation to the disposal of the following FWD's MPF and ORSO businesses in Hong Kong:

- (i) Sun Life MPF Basic Scheme (永明強積金基本計劃) (formerly known as FWD MPF Master Trust Basic Scheme (富衛強積金集成信託基本計劃);
- (ii) Sun Life MPF Comprehensive Scheme (永明強積金綜合計劃) (formerly known as

FWD MPF Master Trust Comprehensive Scheme (富衛強積金集成信託綜合計劃);

- (iii) the Class G policies underlying the Sun Life MPF Master Trust;

- (iv) FWD Capital Guaranteed Plan; and

- (v) FWD Multi-Funding Provident Plan,

(the MPF Schemes in (i) to (iii) are referred to as the "MPF Schemes", and the ORSO schemes in (iv) to (v) are referred to as the "ORSO Schemes").

The disposal includes, inter alia, the transfer from FWD to Sun Life of certain Class G policies underlying the MPF Schemes and ORSO Schemes.

As at 31 December 2019, there are 71 Class G policies underlying the MPF Schemes and ORSO Schemes, as detailed in the Schedule to the Scheme ("**Transferring Policies**"). The transfer of the Business (as defined below), which includes the Transferring Policies, is therefore part of the transaction contemplated under the Implementation Agreement.

As at 31 December 2019, Sun Life has 80 Class G policies issued and maintained for its MPF and ORSO schemes in Hong Kong. It is expected that the proposed transfer of the Business (as defined below), including the Transferring Policies, will add scale to Sun Life's existing Class G long term business while capitalizing on Sun Life's expertise in retirement products. Further, this should offer economies of scale, and enhance operational efficiencies and service standards of the relevant businesses.

The Proposed Transfer

It is proposed that, pursuant to section 24 of the Ordinance and section 25 of the Act, certain Class G long term business of FWD in Hong Kong ("**Business**"), including the Transferring Policies and the assets and liabilities attributable thereto, shall be transferred from FWD to Sun Life 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 Ordinance and the order of the Bermuda Court ("**Bermuda Order**") made pursuant to section 25 of the Act.

Transfer Date

The transfer date ("**Transfer Date**") is 12:01 a.m. (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the order of the Hong Kong Court is granted and the order of the Bermuda Court is granted, in each case sanctioning the Scheme. Subject to the grants of the orders, it is expected that the Transfer Date will take effect on 1 December 2020, but it may be subject to change.

Transfer of Assets and Liabilities

With effect from the Transfer Date, (i) all the assets of FWD (including any right or benefit of FWD under the Transferring Policies) as are attributable to the Business, wherever situated, which shall be transferred to Sun Life pursuant to the Implementation Agreement ("**Transferring Assets**"), will be transferred by FWD to, and vested in, Sun Life subject to any encumbrances in respect thereof; and (ii) all liabilities of FWD as at the Transfer Date attributable to the Business (whether present, future or contingent) under and in relation to the Transferring Policies (which shall be transferred to Sun Life pursuant to the Sale and Purchase Agreement) ("**Transferring Liabilities**"), will be transferred to and become liabilities of Sun Life, and FWD shall be entirely released therefrom.

Where there are any assets or liabilities of FWD which would otherwise form part of the Transferring Assets or Transferring Liabilities respectively as at the Transfer Date, but which cannot be transferred to Sun Life for any reasons (referred to as "**Residual Assets**" and "**Residual Liabilities**"), they will be transferred to Sun Life on subsequent transfer date(s) after the Transfer Date in accordance with the terms of the Scheme.

Transfer of Policies

With effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD under, and be bound by all terms and conditions of, the Transferring Policies. The Transferring Policies shall form part of Sun Life's long term business from the Transfer Date.

Transfer of Records

With effect from the Transfer Date, all statutory records and other information relating to the policy holders, insureds, beneficiaries and assignees of, or any other persons relating to, the Transferring Policies, including, without limitation, their personal data, which is held by FWD shall be transferred to Sun Life, and Sun Life shall have the same rights and powers in holding and using (and transferring) such information as those of FWD prior to the Transfer Date.

Continuation of Proceedings

From the Transfer Date, with respect to the Transferring Policies, Transferring Assets and Transferring Liabilities (or from the subsequent transfer date(s) with respect to Residual Assets and Residual Liabilities), any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings pending by or against FWD shall be continued by or against Sun Life in substitution for FWD, and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

New Sun Life Insurance Funds

On and with effect from the Transfer Date, (i) Sun Life shall establish three new sub-funds under the Sun Life Class G Fund, namely: the New MPF Sub-Fund (Class G), New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G), which shall be maintained by Sun Life as separate sub-accounts under the Sun Life Class G Fund (the New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G) shall be referred to as the "New ORSO Sub-Funds (Class G)"); and on and with effect from the Transfer Date, all Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); and all Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).

Premiums, Mandates and Other Instructions

Premiums and other sums payable to FWD in respect of the Transferring Policies will automatically become payable to Sun Life on or after the Transfer Date. Mandates or other instructions regarding the

payment of any sums by FWD in respect of such policies will be transferred to Sun Life.

Costs of the Scheme

No expenses of the Scheme will be borne, directly or indirectly, by any policy holder. All expenses will be paid by FWD and Sun Life in equal share out of their respective shareholders' funds.

Governing Law

This Scheme shall be governed by the laws of Hong Kong subject to any procedural issues in connection with the Petition under section 25 of the Act being governed by Bermuda law.

Part 2

FURTHER INFORMATION ON THE HEARINGS

Final Hearings

The Petition for sanction of the Scheme will be heard at the Hong Kong Court in Hong Kong and the Bermuda Court in Bermuda, respectively. We anticipate that the final hearings, at which the Hong Kong Court and the Bermuda Court will consider whether or not to sanction the Scheme, will take place, respectively, at 10 a.m. on 25 November 2020 and 9:30 a.m. on 17 November 2020.

The Ordinance and the Act 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 hearings of the Petition before the Hong Kong Court and the Bermuda Court, respectively.

If you do intend to appear at the hearing of the Hong Kong Court or the Bermuda Court, we request you give preferably not less than seven (7) calendar days' prior written notice of such intention, and the reasons therefore, to the solicitors of FWD and Sun Life at the following address:-

For the hearing of the Hong Kong Court:

Baker & McKenzie
14/F, One Taikoo Place
979 King's Road

Quarry Bay
Hong Kong

(All letters should be marked in English "FWD / Sun Life Insurance Portfolio Transfer" for the attention of Mr. Martin Tam or in Chinese "「富衛 / 永明保險組合轉讓」" for the attention of 譚志偉律師
E-mail: martin.tam@bakermckenzie.com)

For the hearing of the Bermuda Court:

Appleby
Canon's Court, 22 Victoria Street, Hamilton,
Bermuda

(All letters should be marked in English "FWD / Sun Life Insurance Portfolio Transfer" for the attention of Mr John Wasty E-mail: jwasty@applebyglobal.com)

If you intend to object to the Scheme but do not wish to appear at the hearing of the Hong Kong Court or the Bermuda Court, you should give not less than seven (7) calendar days' prior written notice of such intention, and the reasons therefor, to the solicitors of FWD and Sun Life at the addresses above.

Key Dates

You are therefore reminded to note the following key dates:

Event	No. of calendar days from the date of this Circular	Key Dates
Deadline to file an objection to the Scheme in the Bermuda Court	25	10 November 2020
Date of Court hearing in Bermuda to approve the Scheme	32	17 November 2020
Date of Court hearing in Hong Kong to approve the Scheme	40	25 November 2020

Schedule 2

Part 1: Key Assessment of the Independent Actuary (or Approved Actuary)

The Independent Actuary (or Approved Actuary) has opined in both the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report, in particular, that:

- (i) The Scheme will have no material adverse effect on the reasonable benefit expectations of the policy holders of the Transferring Policies and the non-transferring policies of FWD or the existing policy holders of Sun Life.
- (ii) The Scheme will have no material adverse effect on the financial security of the policy holders of the Transferring Policies and the non-transferring policies of FWD or the existing policy holders of Sun Life.
- (iii) The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
- (iv) He is satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Part 2: Summary of the Independent Actuary's Report (or Approved Actuary's Report)

The Independent Actuary (or Approved Actuary) has prepared two reports consisting of: (i) the Independent Actuary's Report (or Approved Actuary's Report); and (ii) the Supplementary Report².

Summary of the Independent Actuary's Report (or Approved Actuary's Report)

Introduction

- 1.1. I, Clement Bonnet, have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41, and as the Approved Actuary pursuant to Section 25 of the Bermuda Insurance Act 1978 ("Approved Actuary"), to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of certain long term pension business from FWD Life Insurance Company (Bermuda) Limited ("FWD") to Sun Life Hong Kong Limited ("Sun Life"). These two companies are collectively referred to herein as the "Parties". The long term business involved is referred to as the "Transferring Business" and comprises the Class G insurance policies, excluding the four internal retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"), written by FWD before the date the Scheme takes into effect (the "Transfer Date"). The Class G policies are currently issued to trustees or employers of mandatory provident funds ("MPF") schemes and occupational retirement ("ORSO") schemes. The trustees or employers taking out these Class G insurance policies are collectively referred to herein as the "Transferring Policy holders"
- 1.2. I am a Fellow member of the Actuarial Society of Hong Kong and a Fellow member of the French Institute of Actuaries. I am a Principal and Consulting Actuary of Milliman Limited, residing of 3901-2, AIA Tower, 183 Electric Road, North Point, Hong Kong ("Milliman").
- 1.3. In preparing my Independent Actuary's Report (or Approved Actuary's Report) on the Scheme, I consulted the Insurance Authority ("HK IA") on the required contents and incorporated suggestions from the HK IA as appropriate. I have used (i) section 2 paragraphs 31 to 41 of the Prudential Regulation Authority (PRA) as well as Chapter 18 of the Supervision Manual ("SUP 18") contained in the Financial Conduct Authority ("FCA") Handbook; and (ii) Section 25 of the Bermuda Insurance Act 1978, as a reference basis. I

² The Independent Actuary's Report (or Approved Actuary's Report) was prepared as of 31 December 2018 and dated 26 June 2019 and the Supplementary Report was prepared as of 31 December 2019 and dated 14 August 2020.

In the Supplementary Report, the Independent Actuary (or Approved Actuary) has considered relevant developments brought to his attention by FWD and Sun Life since the completion of the Independent Actuary's Report (or Approved Actuary's Report). Both the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report are available for review by visiting the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, respectively, until the final hearings in the Hong Kong Court and the Bermuda Court. You may also obtain a copy of the Independent Actuary's Report (or Approved Actuary's Report) and the Supplementary Report free of charge by sending a written request to the offices of FWD and Sun Life at the addresses listed at page 3 above on or prior to the date of the final hearings to approve the transfer in the Hong Kong Court on 25 November 2020 and in the Bermuda Court on 17 November 2020.

also have had regard to the guidance published by the FCA in May 2018 ("FG18/4: The FCA's approach to the review of Part VII insurance business transfers") on its approach to the review of Part VII insurance business transfers. The scope of my review and opinions are confined to the effects of the Scheme on the long term policy holders of FWD and Sun Life. It does not include an assessment of the impact of the Scheme on the shareholders of either company. I have considered the Scheme as presented to me and have not considered any other alternative schemes.

- 1.4. 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 representatives of the Parties.

Summary and Overview

- 1.5. The rationale behind this transfer is to allow Sun Life to acquire the pension business from FWD, expanding Sun Life's presence in Asian Wealth Management space in a low capital and fee-based business, and adding scale to Sun Life existing pension business resulting in a reduction of expenses per member.

- 1.6. In my opinion,
- The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

- 1.7. In arriving at my opinion, I have considered various aspects below. More detailed discussions are provided in the full version of my report.

Effect of Scheme on benefit expectations of Transferring Policy holders

Discretionary benefits of the Transferring Business

- 1.8. On the Transfer Date FWD will transfer all Class G policies under and in respect of the MPF schemes and ORSO schemes, except FWD Retained ORSO Business.
- FWD MPF Capital Guarantee Portfolio ("FWD MPF CG") is a unitised fund with price equal to the net asset value. The net asset value increases based on the actual return less applicable administration fees, trustee fee and guarantee fee. FWD MPF CG guarantees that the capital will be preserved at the end of every 5-year period of continuous investment or over a shorter period if the member reaches the age of 65.
 - The discretionary benefits of FWD ORSO business are affected by a discretionary crediting rate which is subject to a minimum guaranteed rate. The same crediting rate philosophy is applied to all ORSO schemes offered by FWD.

- 1.9. Sun Life has undertaken to follow the current approach adopted by FWD to determine the discretionary benefits. In particular crediting rates will be reviewed at least annually, taking into account policy holders' reasonable expectations and the market environment. Sun Life's objective is to provide continuity to policy holders and to establish policies and practices similar to FWD to the extent practicable. Similar to FWD, Sun Life will review the methodology on a regular basis as a result of the normal review process.
- 1.10. In light of my review, it is my opinion that the discretionary benefits setting principles and methodologies, and the required procedures for any changes to the existing approach, which are intended to be used by Sun Life after the transfer, provide sufficient safeguards that policy holders should expect to be treated in a similar manner before and after the transfer.

Asset allocation and investment policy of the Transferring Business

- 1.11. Investment policies for the transferring Class G funds will be maintained separately from Sun Life's existing Class G funds. In particular, there will not be significant change to the target asset allocations and the investment policies after the transfer. Similar to the governance process for existing Sun Life Class G funds, investment policies for the Transferring Business will be maintained and endorsed by Sun Life ALM Committee and approved by Sun Life Financial Asia ALM Committee. The investment policies and asset allocations for the transferring funds will not be subject to material changes from FWD existing policies. Based on these considerations, I have no reason to believe that the Scheme will have a material adverse effect on the reasonable benefit expectations of the Transferring Policy holders in this regard.

Discretionary charges of the Transferring Business

- 1.12. FWD has broad rights to vary policy charges, as well as the right to impose any other charges for administering the policy. All scheme members and participating employers would be given written notice in advance according to policy provisions before any changes come into effect. These rights will continue with Sun Life and exist whether or not the Scheme proceeds.
- 1.13. I have been informed by Sun Life that the current charge level for the Transferring Business will not change materially as a result of the transfer. In particular no other fees would be applied to the Transferring Business. 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 Policy holders.

Contractual guaranteed benefits provisions

- 1.14. According to the Scheme, Sun Life will commit to continue paying the guaranteed benefits of the Transferring Policy holders of FWD. The rights of these policy holders, as defined under their existing policy documents, will be the same before and after the transfer.

Costs and expenses in relation to the Scheme

- 1.15. The total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's Shareholders' Funds. Sun Life 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 policy holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, I have no reason to believe there will be any material adverse impact on the Transferring Policy holders in this regard.

Tax implications

- 1.16. Both FWD and Sun Life are using the Hong Kong profit tax rate of 16.5% to calculate the tax of the Class G business. No tax balances will be transferred from FWD to Sun Life as a result of the transfer. Hence the tax regime of the Transferring Business will be unchanged and the proposed transfer will have no impact on the reasonable benefit expectation of policy holders in this regard.

Policy terms and conditions

- 1.17. I have been informed that there will be no change to the policy terms and conditions of Transferring Business as a result of Scheme implementation. I have no reason to believe there will be a material adverse impact on the policy terms and conditions caused by the Scheme.

Effect of Scheme on benefit expectations of non-transferring FWD policy holders and existing Sun Life policy holders

Discretionary benefits

- 1.18. The principles and methods currently adopted by FWD in determining dividends for its in-force participating policies and discretionary interest rates on universal life policies will not be changed after the proposed transfer. After the transfer, part of the overhead expenses in relation to the retirement business (less than 3% of the total expenses based on a study of the pension expenses incurred by FWD for the period 2014-2018) will not be eliminated and will be allocated to the remaining business. However, FWD does not expect any material increase in unit cost and any material adverse impact on dividend payment and crediting rates (the main factor affecting the dividend and crediting rate being the investment experience). For non-participating life policies and investment linked policies, FWD currently has broad rights to adjust premium and change fees or charges. These rights exist whether or not the Scheme proceeds.
- 1.19. For the five internal Class G plans which will remain with FWD, FWD has no intention to change the investment strategy or the crediting rate philosophy as a result of the Transfer. Any future review or change will undergo the same review process as the one before the transfer. However, due to the decrease in asset under management in 2018 and the potential increase in investment expense, FWD has intention to outsource the investment of FWD Retained ORSO Business, keeping the investment objectives unchanged and continuing offering the same guarantee. In any event, FWD will ensure compliance with the requirements of GL14 "Guideline on Outsourcing" and will go through the necessary regulatory approval process.
- 1.20. Sun Life will maintain the Transferring Business separately from Sun Life's existing business, and in particular Sun Life's existing Class G business. For existing policy holders, contractual guaranteed benefits will remain unchanged.
- 1.21. In light of my review, it is my opinion that current discretionary benefits setting principles and methodologies for the non-transferring FWD and the existing Sun Life policy holders will not be affected by the Scheme.

Asset allocation and investment policy

- 1.22. Both FWD and Sun Life have no intention to change the investment strategies currently adopted for the assets supporting the existing policies after the proposed transfer. I have no reason to believe that the Scheme will have a material adverse impact on the reasonable benefits expectations of the non-transferring FWD policy holders and existing Sun Life policy holders in this regard.

Policy terms and conditions

- 1.23. There will be no change to the policy terms and conditions of the FWD non-transferring and Sun Life existing business as a result of Scheme implementation. I have no reason to believe there will be a material adverse impact on the policy terms and conditions of non-transferring FWD policy holders and existing Sun Life policy holders caused by the Scheme implementation.

Costs and expenses in relation to the Scheme

- 1.24. The total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's Shareholders' Funds. FWD and Sun Life have 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 policy holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, I have no reason to believe there will be a material adverse impact on the long term policy holders of FWD and Sun Life in this regard.

Effect on the Financial Security of Transferring Policy holders

The provision of financial security

- 1.25. To protect the security of policy holders, insurance companies maintain three asset layers namely policy reserves, minimum solvency margin and surplus, with the first two layers required by the legislation:
- Policy reserves: assets supporting the policy liabilities calculated according to the underlying contractual obligations, calculated under the valuation standards prescribed by statutory rules and are prudent.
 - Minimum solvency margin: assets required to fulfil the minimum solvency requirements, which serve as a margin relating to the risks of liabilities undertaken by the insurers. For long term business written under Class G, there is no additional solvency margin required in Hong Kong.
 - Surplus: amount of excess assets held by an insurer over and above the statutory minimum solvency margin provides an indicator of its financial strength and solvency position.
- 1.26. In addition to these three asset layers, insurance companies are required to examine annually the financial position of the overall business under a number of adverse scenarios as prescribed by the Actuarial Guidance Note 7 ("AGN7") on Dynamic Solvency Testing ("DST") issued by the Actuarial Society of Hong Kong and required by the HK IA.

Policy reserves

- 1.27. FWD has established the statutory reserves for Class G long term business as the sum of:
- accumulation of contributions paid into the fund, reduced by applicable expenses, fees or charges, and increased by interest credited in accordance with the applicable guaranteed rate or declared rate ("Account Balance");
 - provisions for investment guarantee ("GL7 reserves"); and
 - additional smoothing reserves.

- 1.28. After the transfer, Sun Life will continue holding GL7 reserves for the Transferring Business in accordance with the Hong Kong regulatory standards. In addition, Sun Life will continue holding a smoothing reserve for both ORSO and MPF business using a methodology similar to FWD's.
- 1.29. At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business:
- The minimum GL7 reserve will be split at Transfer Date between the FWD Retained ORSO Business and the Transferring ORSO business based on the account balance. The amount of GL7 reserve in respect of the Transferring Business will be held by Sun Life after the transfer and there will be no change in GL7 reserve for the Transferring Policy holders.
 - Both parties agree to transfer the entire ORSO smoothing reserve to Sun Life, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO business, leading to a higher smoothing reserve for the Transferring Business after the Transfer.

- 1.30. In conclusion, the reserves held after the transfer will be higher than the reserves held by FWD before the transfer. In addition, the methodology is not expected to be changed materially. Therefore it is my opinion that the changes in procedures in determining the valuation methodology before and after the transfer will not materially adversely impact the financial security of the Transferring Policy holders of FWD.

Solvency position, overall financial position and dynamic solvency testing

- 1.31. The overall financial position of the Transferring Business does not only depend on the amount of statutory reserves but also on the level of surplus and capital. As there is no additional solvency margin required in Hong Kong for Class G business on top of the existing GL7 reserve, I have considered in more detail the free asset ratio (defined as the ratio of surplus (net asset minus statutory solvency margin) divided by the total liabilities including statutory solvency margin) before and after the transfer. As at 31 December 2018, based on the HKFRS accounts, FWD free asset ratio was 4.6% before transfer, while Sun Life free asset ratio was 6.2% after transfer.
- 1.32. In addition, there have been DST projections which examine the solvency positions of the Parties before and after the proposed transfer under a number of plausible scenarios. The projections show that
- the future solvency positions of both FWD before the transfer and Sun Life after the transfer remain satisfactory and above the regulatory requirement under all prescribed scenarios.
 - there is no material difference in the future solvency position of both FWD and Sun Life whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of both FWD and Sun Life total portfolio.

Risk exposures

- 1.33. The risk exposure of the Parties is not impacted by whether or not the proposed transfer is executed. Overall, the Transferring Business only accounts for about 5% of the total Sun Life liabilities and the additional risk introduced as a result of the transfer is not deemed material.
- 1.34. 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 the Transferring Policy holders, and hence the Scheme will not materially adversely affect the financial security of the Transferring Policy holders.

Investment policy

- 1.35. As the invested assets supporting the transferring policies of FWD will be managed separately from the assets supporting the existing policies of Sun Life (and in line with previous FWD practices), there will be no conflicting investment objectives to reconcile, or varying operational standards to be aligned.

Financial Security Conclusion

- 1.36. In my opinion, the Scheme will have no material adverse effect on the financial security of the Transferring Policy holders.

Effect on the Financial Security of Non-transferring FWD Policy holders and Existing Sun Life Policy holders

Policy reserves

- 1.37. Both FWD and Sun Life will continue using the same established methods and processes. In particular, for the FWD Retained ORSO Business of FWD, the same established methods and processes will be used to calculate the GL7 reserve and smoothing reserve. At Transfer Date, the GL7 reserve and smoothing reserve will be apportioned proportionally.
- The minimum GL7 reserve for ORSO business will be split by FWD between the FWD Retained ORSO Business and the Transferring ORSO business based on the Account Balance. Even though historically the two categories were managed in aggregate, this split is assessed to be reasonable based on an analysis produced by FWD. In particular the GL7 reserve is assessed to be not materially different between the two groups of policies in views of the average historical persistency experience, risk profile and nature of guarantee.
 - The smoothing reserve for ORSO business is split between the FWD Retained ORSO Business and the Transferring ORSO business based on the Account Balance. Even though the entire ORSO smoothing reserve will be transferred to Sun Life at Transfer Date, FWD will set up smoothing reserve for the FWD Retained ORSO Business after the transfer equal to the smoothing reserve before the transfer (i.e. based on the split of the total smoothing reserve based on the Account Balance).
- 1.38. Hence, in my view there will be no material adverse impact on the financial security of the non-transferring FWD policy holders and existing Sun Life policy holders in this regard.

Solvency positions and overall financial position

- 1.39. The DST projections provided show that the future solvency positions of both FWD and Sun Life remain satisfactory and above the regulatory requirement under all prescribed scenarios. In addition, there is no material difference in the future solvency position of both FWD and Sun Life whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of both FWD and Sun Life total portfolio.

Dynamic solvency testing and risk exposure

- 1.40. The DST results show that, whether the Scheme is implemented or not, the future solvency positions of both FWD and existing Sun Life have similar sensitivities under the scenarios tested. As a result, I consider that the risk exposures for non-transferring FWD and Sun Life policy holders will have no material change after the implementation of the Scheme.

Investment policy

- 1.41. Both FWD and Sun Life have confirmed that they will continue to operate the investment portfolio in exactly the same manner as their respective investment policies and guidelines. Any future changes to these investment policies will undergo the same review process as a normal course of business.

Financial Security Conclusion

- 1.42. In my opinion, the Scheme will have no material adverse effect on the financial security of the non-Transferring Policy holders of FWD and no material adverse effect on the financial security of the existing policy holders of Sun Life.

Other Considerations

Policy holder services

- 1.43. There is no intention to change the level of existing service to the remaining policy holders of FWD as a result of the Transfer. For the Transferring Policy holders, the existing range of fund choices currently available to them will be maintained after the proposed transfer. In addition, the policy holders will continue being serviced by BestServe (BestServe is a fellow subsidiary of Sun Life, and FWD outsourced part of the pension operations to BestServe).

Reinsurance arrangements

- 1.44. There is no reinsurance in place with respect to the Transferring Business. For the remaining business of FWD and Sun Life, the existing reinsurance arrangements will not be affected as a result of the transfer.

Distribution agreement

- 1.45. FWD and Sun Life have entered into a 15-year exclusive distribution agreement allowing Sun Life to offer MPF and ORSO schemes through FWD's agency networks in Hong Kong. There will be no impact to the remaining policy holders of FWD.

Conclusion

- 1.46. I have concluded that:
- The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

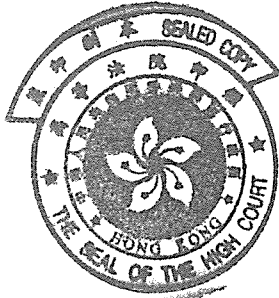
Reliances and Limitations

- 1.47. This report is subject to the same reliances and limitations clauses as set out in the full version of my Independent Actuary's Report (or Approved Actuary's Report) dated 26 June 2019 (as confirmed at section 1.8 of the Supplementary Report).

Clement Bonnet
Independent Actuary
(or Approved Actuary)
26 June 2019

Hong Kong Petition dated 11 September 2020

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1440 OF 2020



IN THE MATTER of FWD LIFE INSURANCE
COMPANY (BERMUDA) LIMITED
1st Petitioner

and

IN THE MATTER of SUN LIFE HONG KONG
LIMITED
2nd Petitioner

and

IN THE MATTER of AN APPLICATION UNDER
SECTIONS 24 AND 25 OF THE INSURANCE
ORDINANCE (CAP 41)

PETITION

To: The High Court of Hong Kong

THE HUMBLE PETITION OF (i) FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED ("FWD") whose principal place of business is at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong; and (ii) SUN LIFE HONG KONG LIMITED ("Sun Life") whose registered office is at 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong ("**Joint Petitioners**") **SHOWETH AS FOLLOWS:-**

1. The objects of this Petition are:-

- (i) to seek an Order of this Honourable Court under section 24 of the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong, "**Ordinance**") sanctioning the scheme (the "**Scheme**", which is annexed to this Petition as "**Annexure 1**") for the transfer from FWD to Sun Life of the Class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance) carried on by FWD in or from Hong Kong in respect of the Transferring Policies (as defined in paragraph 5 below) (such Class G long term business to be transferred including the Transferring Policies (as defined in paragraph 5 below) should be referred to as the "**Business**"); and
 - (ii) to obtain an Order under section 25 of the Ordinance making ancillary provisions for implementing the Scheme as this Honourable Court shall consider appropriate.
- 2.
 - (i) FWD was incorporated in Bermuda on 13 April 1977, under the name of Rauco Insurance Company Limited. FWD is part of the FWD Group, which is the insurance business arm of investment group, Pacific Century Group, whose minority shareholders include Swiss Re Group. The principal business of FWD is the carrying on of certain classes of long term business in Hong Kong. FWD is regulated in Bermuda by the Bermuda Monetary Authority ("**BMA**") and has a class E and a class 3 licence under the Bermuda Insurance Act 1978 ("**Act**"). FWD is registered as a non-Hong Kong company under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong, "**CO**"). FWD is authorized by the Insurance Authority ("**IA**") under the Ordinance to carry on long-term business of Class A (life and annuity), Class C (linked long term), Class D (permanent health), Class G (retirement scheme management category I) and Class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. FWD has an issued share capital of US\$830,200,000 as of the financial year ended on 31 December 2019.
 - (ii) Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life is wholly-owned by Sun Life Assurance Company of Canada, a company incorporated in Canada. Sun Life has an issued share capital of HK\$3.527

billion as of the financial year ended 31 December 2019. Sun Life is regulated in Bermuda by the BMA and has a class E licence under the Act. Sun Life is registered as a non-Hong Kong company under the CO. The principal business of Sun Life is the carrying on of certain classes of long term business in Hong Kong. Sun Life is authorized by the IA under the Ordinance to carry on long-term business of Class A (life and annuity), Class C (linked long term), Class D (permanent health), Class G (retirement scheme management category I), Class H (retirement scheme management category II) and Class I (retirement scheme management category III) as set out in Part 2 of Schedule 1 to the Ordinance in or from Hong Kong.

3. On 3 August 2016, FWD Management Holdings Limited ("FMH") (being part of the FWD Group) and Sun Life entered into an implementation agreement ("**Implementation Agreement**") in relation to the disposal of the following FWD's MPF and ORSO businesses in Hong Kong:

- (i) Sun Life MPF Basic Scheme (永明強積金基本計劃) (formerly known as FWD MPF Master Trust Basic Scheme (富衛強積金集成信託基本計劃));
- (ii) Sun Life MPF Comprehensive Scheme (永明強積金綜合計劃) (formerly known as FWD MPF Master Trust Comprehensive Scheme (富衛強積金集成信託綜合計劃));
- (iii) the Class G Policies (as defined in paragraph 4 below) underlying the Sun Life MPF Master Trust (formerly known as Schroder MPF Master Trust);
- (iv) FWD Capital Guaranteed Plan; and
- (v) FWD Multi-Funding Provident Plan,

(the MPF schemes in (i) to (iii) are referred to as the "**MPF Schemes**", and the ORSO schemes in (iv) to (v) are referred to as the "**ORSO Schemes**").

4. The disposal includes, inter alia, (i) the sale of the shareholding of the then FWD Pension Trust Limited ("**FWDPT**"), the trustee of the MPF Schemes in (i) and (ii) of paragraph 3 above, to Sun Life (and its nominees); and (ii) the transfer from FWD to Sun Life certain insurance policies in the nature of the Class G (retirement scheme management category I) long term business (as defined in Part 2 of Schedule 1)

("Class G Policies") underlying the MPF Schemes and ORSO Schemes. The sale of the then FWDPT had been completed on the first completion date, 3 October 2017, after which the name of FWDPT was changed to Sun Life Pension Trust Limited.

5. As at 31 December 2019, there are 71 Class G Policies underlying the MPF Schemes and ORSO Schemes, the details of which are set out in the Schedule to the Scheme (collectively, "**Transferring Policies**"). The transfer of the Business is part of the transaction contemplated under the Implementation Agreement. Other than the Transferring Policies, there are 4 non-transferring Class G Policies (as further explained in paragraph 18(viii)(c) below) which will continue to be held by FWD after the proposed transfer.
6. Under the Implementation Agreement, in respect of the Transferring Policies, FMH agreed to transfer to Sun Life (or its nominees) cash and/or the legal and beneficial title in "eligible assets" with a "fair market value" equal to FWD's estimate of the Class G required provisions (which shall include the provision for account balance, the provision for investment guarantee and the provision for the smoothing of investment returns) as at 12:01 a.m. (Hong Kong time) on the second completion date of the Implementation Agreement. The second completion date will be the Transfer Date under the Scheme.
7. As at 31 December 2019, Sun Life has 80 Class G Policies issued and maintained for its MPF and ORSO schemes in Hong Kong. It is expected that the proposed transfer of the Business will add scale to Sun Life's existing Class G long term business while capitalizing on Sun Life's expertise in retirement products. Further, this will offer economies of scale, and enhance operational efficiencies and service standards of the relevant businesses.
8. The proposed transfer of the Business falls within section 24(1) of the Ordinance. Pursuant to section 24(1) of the Ordinance, the Scheme for the transfer is devised; and the transfer under the Scheme is conditional upon obtaining the sanction of this Honourable Court.

9. The Scheme provides for, *inter alia*, the transfer by FWD to Sun Life of the Transferring Policies, and the Transferring Assets, Transferring Liabilities, Residual Assets and Residual Liabilities (as defined in the Scheme) relating to the Transferring Policies.
10. As each of FWD and Sun Life is incorporated and registered as an insurer in Bermuda, the transfer of the Business is also conditional on the approval or non-objection of the BMA and the sanction of the Supreme Court of Bermuda ("**Bermuda Court**"). An application shall be made by FWD and Sun Life to the Bermuda Court for an order sanctioning the Scheme pursuant to section 25 of the Act.
11. It is proposed by FWD and Sun Life that:
 - (i) the Business shall be transferred from FWD to Sun Life in accordance with the terms of the Scheme and subject to the order of this Honourable Court made pursuant to section 24 of the Ordinance and the order made by the Bermuda Court pursuant to section 25 of the Act; and
 - (ii) by the order of this Honourable Court, provisions be made pursuant to section 25(1) of the Ordinance for the transfer to Sun Life, in accordance with the terms of the Scheme, of the property and liabilities of FWD in respect of the Business.
12. The transfer contemplated under the Scheme will not proceed unless:
 - (i) the approvals from each of the Mandatory Provident Fund Schemes Authority ("**MPFA**") and the Securities and Futures Commission ("**SFC**") is obtained in Hong Kong (which are required in respect of the transfer of the Transferring Policies issued under the MPF Schemes);
 - (ii) the approval of the SFC is obtained in Hong Kong (which is required in respect of the transfer of the Transferring Policies issued under paragraph 3(iv) to (v) above);

- (iii) the approval or non-objection of the BMA is obtained in Bermuda; and
- (iv) the Scheme is sanctioned by this Honourable Court and the Bermuda Court.

In relation to (i), the approvals from the MPFA and the SFC have been obtained on 25 March 2020. In relation to (ii), the approval of the SFC has been obtained on 29 May 2020. In relation to (iii), the approval of the BMA is expected to be obtained in September 2020.

13. Pursuant to section 24(2) of the Ordinance, an independent actuary, Mr. Clement Bonnet (the "**Independent Actuary**"), a Fellow of the French Institute of Actuaries, has prepared a report prepared as of 31 December 2018 and dated 26 June 2019 on the terms of the Scheme providing his opinions on the likely effects of the Scheme on the policy holders of the Transferring Policies and the non-transferring policies of FWD and the existing policy holders of Sun Life (the "**Independent Actuary's Report**").
14. In the Independent Actuary's view (as summarized in the Independent Actuary's Report):
 - (i) The Scheme will have no material adverse effect on the reasonable benefit expectations of the policy holders of the Transferring Policies and the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - (ii) The Scheme will have no material adverse effect on the financial security of the policy holders of the Transferring Policies and the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - (iii) The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - (iv) He is satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.
15. On 14 August 2020, the Independent Actuary issued a supplementary report prepared as of 31 December 2019 and dated 14 August 2020 on the terms of the Scheme providing his opinions on the likely effects of the Scheme on the policy holders of the

holders of Sun Life to reflect the updated financial position as of 31 March 2020 (the **"Supplementary Report"**).

16. In the Supplementary Report, the Independent Actuary states that he has considered relevant developments brought to his attention by FWD and Sun Life since the completion of the Independent Actuary's Report and that he has not changed his conclusions regarding the likely effects of the Scheme.
17. For the purpose of section 24(3)(b) of the Ordinance and for the reasons set out below, it is proposed that:
 - (i) a statement as required under section 24(3)(b) for every shareholder of the insurers concerned be sent to each of the shareholder of FWD and Sun Life at its principal place of business in Hong Kong (or if such shareholder does not have a principal place of business in Hong Kong at the registered office in its place of incorporation); and
 - (ii) a statement as required under section 24(3)(b) for the long term policy holders of the insurers concerned be sent to each legal holder of the Transferring Policies of FWD having his/her name appear on the register of policy holders maintained by FWD at their respective last known address, and to each policy holder of Class G Policies of Sun Life having his/her name appear on the register of policy holders maintained by Sun Life at their respective last known address (or, if the address of a policy holder (being a person to whom under a policy a benefit is due or a periodic payment is payable) is not known to Sun Life, at the last known address of the employer of such policy holder for onward delivery to such policy holder),

(the statements in (i) and (ii) above are collectively referred to as **"Statutory Statements"**, and each a **"Statutory Statement"**).

18. It is further proposed that the sending of the relevant Statutory Statement to all other long term policy holders of FWD and all policy holders of the non-Class G Policies (as defined below) of Sun Life be dispensed with, for the reasons explained below:

- (i) Each of FWD and Sun Life is required under section 22(1) of the Ordinance to maintain an account for each class of insurance business specified in Part 2 of Schedule 1 to the Ordinance, namely
 - (a) an account for its Hong Kong Class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance) ("**Class G Business**"),
 - (b) an account for each class of the other long term business (collectively, "**non-Class G Business**"; and the policies shall be referred to as "**non-Class G Policies**").
- (ii) A separate insurance fund shall be maintained for each such account, and each such insurance fund must satisfy the applicable solvency requirements as prescribed in section 22(3) of the Ordinance. In addition, the application of assets within each such insurance fund shall comply with the requirements set out in section 23 of the Ordinance.
- (iii) Accordingly, the non-Class G Business of FWD has been maintained by FWD "separated" and "segregated" from the Class G Business of FWD in accordance with sections 22 and 23 of the Ordinance. In light of such segregation, and the fact that none of the policies, assets or liabilities in the non-Class G Business of FWD will be transferred under the Scheme, the relevant Statutory Statement - which relates only to the transfer of certain Class G Business of FWD - should not be required to be sent to the policy holders of the non-Class G Business of FWD.
- (iv) Similarly, Sun Life maintains an account, including a separate fund, for each class of insurance business in accordance with sections 22 and 23 of the Ordinance. In light of such segregation, and the fact that none of the Transferring Policies, Transferring Assets and Transferring Liabilities will be transferred into the insurance funds of the non-Class G Business of Sun Life under the Scheme, the relevant Statutory Statement - which relates only to the transfer of the Class G Business - should not be required to be sent to the policy holders of the non-Class G Policies of Sun Life.

- (v) Both the appointed actuary of FWD and the Independent Actuary have opined that the Scheme should not have a material adverse effect on the reasonable benefit expectations or the financial security of the policy holders of the non-transferring policies of FWD.
- (vi) Both the appointed actuary of Sun Life and the Independent Actuary have opined that the Scheme should not have a material adverse effect on the reasonable benefit expectations or the financial security of the existing policy holders of Sun Life, including policy holders of both Class G Policies and non-Class G Policies (in addition to their opinion that the Scheme should not have a material adverse effect on the reasonable benefit expectations or the financial security of the policy holders of the Transferring Policies).
- (vii) Class G Policies are policies issued primarily for retirement scheme purposes and such policies provide for a guaranteed capital or return subject to the terms thereof. Such Class G Policies are therefore quite different (in form and substance) from the non-Class G Policies which are mainly issued for protection purposes (such as Class A policies), investment purposes (such as Class C policies) or non-guaranteed retirement schemes (such as Class H policies). Distribution of the relevant Statutory Statement to policy holders of the non-Class G Policies of FWD or Sun Life will likely give rise to unnecessary confusion.
- (viii) In respect of policy holders of the non-Class G Policies of Sun Life and policy holders of the non-transferring Class G Policies of FWD, as mentioned in paragraph (i) - (vi) above, the appointed actuary of FWD, the appointed actuary of Sun Life and the Independent Actuary have opined that the Scheme should not have a material adverse effect on their reasonable benefit expectations and financial security. Further, given that their policies are not the subject matter of the transfer, distribution of the relevant Statutory Statement to them will likely give rise to unnecessary confusion.

- (a) The numbers of non-Class G Policies for FWD is around 376,460 as of 31 December 2019. Distribution of the relevant Statutory Statement to such large number of policy holders will impose unnecessary administration and financial burden to FWD, without any real benefits to such policy holders.
- (b) The number of non-Class G Policies for Sun Life as of 31 December 2019 exceeds 420,000. Distribution of the relevant Statutory Statement to such large number of policy holders will impose unnecessary administration and financial burden to Sun Life, without any real benefits to such policy holders.
- (c) The number of non-transferring Class G schemes for FWD is around 4 as of 31 December 2019. Given that their policies are not the subject matter of the transfer, distribution of the relevant Statutory Statement to them will likely give rise to unnecessary confusion. In any event, it is proposed that FWD will send a separate notice to such legal holders and participants at their last known addresses informing them of the proposed transfer of the relevant Class G Policies from FWD to Sun Life and the websites in which details of the proposed transfer are posted.
- (ix) The term "policy holder" is defined in section 2 of the Ordinance to mean the legal holder of a policy and include, in relation to long term business other than the granting of annuities upon human life, a person to whom under a policy a benefit is due or a periodic payment is payable. In the case of FWD, the Class G Policies are all issued to the trustees or employers of the relevant MPF and ORSO schemes. In respect of each such Class G Policy, (a) the relevant trustee or employer (as the case may be) is the legal holder of the policy, (b) other than the legal holder of the policy, "the persons to whom under a policy a benefit is due or a periodic payment is payable" are those scheme members to whom a benefit has become due and payable upon termination of their scheme membership (i.e. when they cease to be members under the relevant policy); and (c) the benefits payable under the policy are

not periodic in nature. Consequently, for the purpose of section 24 of the Ordinance, "policy holders" of the Class G Policies should mean the trustees or employers to whom such policies are issued and the scheme members to whom a benefit has become due and payable (at which time their membership in the policies will also be terminated).

Although it is proposed that the relevant Statutory Statement will be sent to the legal holders of the Transferring Policies of FWD (i.e. the trustees and employers to whom such policies are issued) and the policy holders of the Class G Policies of Sun Life only, it is proposed that the measures set out in paragraph (x) to (xiii) below will be carried out:

- (x) all other policy holders of FWD ("**Other FWD Policy Holders**") i.e. (policy holders of the non-Class G Policies of FWD, policy holders of non-transferring Class G Policies of FWD, scheme members to whom a benefit has become due and payable under the Transferring Policies) and all policy holders of the non-Class G Policies of Sun Life will be informed of the proposed transfer through the following means:
 - (a) the Statutory Notice will be published in the Government of the Hong Kong Special Administrative Region Gazette, the South China Morning Post and the Hong Kong Economic Times, through which all Other FWD Policy Holders of FWD and all policy holders of the non-Class G Policies of Sun Life will be informed of the proposed transfer of the Class G Business of FWD to Sun Life, and their right of inspection;
 - (b) copies of the Petition, the Statutory Statement, the Scheme, the Independent Actuary's Report and the Supplementary Report will be made available for inspection to all policy holders, including the Other FWD Policy Holders of FWD and all policy holders of the non-Class G Policies of Sun Life, at the offices of FWD, Sun Life and Baker & McKenzie, and the Other FWD Policy Holders of FWD and all policy

holders of Sun Life may review and inspect such documents if they want to do so; and

- (c) a copy of the Petition, the Statutory Statement, the Scheme, the Independent Actuary's Report and the Supplementary Report will be posted in the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk on the date of publication of the Statutory Notice, and maintain that posting until an order sanctioning the Scheme is made on the Petition.
 - (xi) In respect of the participants of the relevant MPF Schemes and ORSO Schemes (which are trust based), it is proposed that the relevant trustees will send a separate notice to such participants at their last known addresses (or, if the address of a participant is not known to the relevant trustee, at the last known address of the employer of such participant for onward delivery to such participant) informing them of the proposed transfer of the relevant Class G Policies from FWD to Sun Life and the websites in which details of the proposed transfer are posted.
 - (xii) In respect of the participants of the relevant ORSO Schemes which are not trust based, it is proposed that FWD will send a separate notice to such participants at their last known addresses (or, if the address of a participant is not known to FWD, at the last known address of the employer of such participant for onward delivery to such participant) informing them of the proposed transfer of the relevant Class G Policies from FWD to Sun Life and the websites in which details of the proposed transfer are posted.
 - (xiii) FWD shall send a separate notice to the legal holders and participants of non-transferring Class G schemes at their last known addresses informing them of the proposed transfer of the relevant Class G Policies from FWD to Sun Life and the websites in which details of the proposed transfer are posted.
19. Through the means described in paragraph 18 (x) to (xiii) above, it is anticipated that the Other FWD Policy Holders of FWD, all the policy holders of the non-Class G

Policies of Sun Life and the participants of the relevant MPF Schemes and ORSO Schemes which have invested in FWD's Class G Policies will be appropriately informed about the Scheme, even though some of their policies will not be transferred under the Scheme.

20. For the purpose of section 24(3)(b)(i) of the Ordinance and for the reasons set out below, it is proposed that the setting out of the full terms of the Scheme in the Statutory Statements be dispensed with and, in place of such full terms, a summary of the terms of the Scheme be set out in the Statutory Statements:

- (i) the terms of the entire Scheme are lengthy and complex, and it may be too technical for the members of FWD and Sun Life, and the legal holders of the Transferring Policies to comprehend, and may lead to confusion;
- (ii) a copy of the Scheme will be made available at the websites of FWD and Sun Life at www.fwd.com.hk/en/ and www.sunlife.com.hk, and available for inspection at the offices of FWD and Sun Life for not less than 21 days from the date of publication of the Statutory Notice. Any interested person who wishes to review the entire Scheme may visit the above websites or offices of FWD and Sun Life.

YOUR JOINT PETITIONERS PRAY for the following:-

- (1) an Order pursuant to section 24 of the Ordinance sanctioning the Scheme;
- (2) an Order pursuant to section 25 of the Ordinance that (using the definitions as set out in the Scheme):
 - (i) on and with effect from the Transfer Date, the Transferring Assets shall, by virtue of the Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof;

- (ii) on and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies shall, by virtue of the Order and without any further act or instrument, be transferred by FWD to, and vested in Sun Life subject to any Encumbrances in respect thereof;
- (iii) on and with effect from the Transfer Date, each Transferring Liability shall, by virtue of the Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume any liability in respect of such Transferring Liability;
- (iv) on and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by virtue of the Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume any liability in respect of such Residual Liability;
- (v) on and with effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD under, or by virtue of, the Transferring Policies. The Transferring Policies shall on and with effect from the Transfer Date form part of Sun Life's long term business carried on in or from Hong Kong. On and with effect from the Transfer Date, all rights and powers against FWD available to the policy holder of every Transferring Policy shall cease and shall be substituted by the same rights and powers against Sun Life;
- (vi) in respect of the Transferring Policies under which premiums continue to be payable, the policy holders of the Transferring Policies shall account to Sun Life for any further premiums as and when they become due. Sun Life 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 FWD prior to the transfer;

- (vii) on the Transfer Date, all Statutory Records and other information relating to the policy holders, 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 policy holders, insureds, beneficiaries, assignees and other persons, which is held by FWD shall be transferred to Sun Life, and Sun Life shall have the same rights and powers in holding and using (and transferring) such information as those of FWD prior to the Transfer Date;
- (viii) all terms and conditions of the Transferring Policies (including application forms, illustrative documents, principal brochures, riders, schedules and declarations) shall remain unchanged save that, on and with effect from the Transfer Date, all references in the Transferring Policies to FWD, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents shall be read as reference to Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be); and any reference to “FWD” in the names of the Transferring Policies will be changed to “Sun Life”. In particular, but without limitation, all rights and duties exercisable or expressed to be exercisable or responsibilities to be performed by FWD, 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 Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be);

- (ix) on and with effect from the Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Transferring Policies, Transferring Assets or Transferring Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof;
- (x) on and with effect from the applicable Subsequent Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Residual Assets or Residual Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof;
- (xi) effective from the Transfer Date, Sun Life shall establish three new sub-funds under the Class G Fund, namely New MPF Sub-Fund (Class G), New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G). They shall be maintained by Sun Life as separate sub-accounts under the Sun Life Class G Fund;
- (xii) on and with effect from the Transfer Date, all Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); and all Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G);
- (xiii) on and with effect from the Transfer Date, all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G);

- (xiv) each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G); and each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New ORSO Sub-Funds (Class G);
- (xv) all beneficial interest in any property, assets or investments held on trust by FWD for Sun Life pursuant to the Scheme shall be allocated to the New MPF Sub-Fund (Class G) or New ORSO Sub-Funds (Class G) (as the case may be) to which such property, assets or investments would have been allocated had it constituted a Transferring Asset;
- (xvi) on and with effect from the Transfer Date, all Transferring Liabilities of FWD which are attributable to the Transferring Policies shall be allocated to and become part of the New MPF Sub-Fund (Class G) or New ORSO Sub-Funds (Class G) (as the case may be);
- (xvii) each Residual Liability of FWD which is attributable to the Transferring Policies shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G) or New ORSO Sub-Funds (Class G) (as the case may be);
- (xviii) all liabilities which are required to be satisfied by Sun Life pursuant to the Scheme shall be allocated to the New MPF Sub-Fund (Class G) or New ORSO Sub-Funds (Class G) (as the case may be) to which such liabilities would have been allocated had it constituted a Transferring Liability;

- (xix) all premiums, loan repayments (if any, and interest thereon) and other amounts received or receivable by FWD in respect of any of the Transferring Policies on or after the Transfer Date shall be payable to Sun Life after the Transfer Date;
 - (xx) Sun Life shall be irrevocably authorized to endorse for payment any cheques, drafts, orders, postal orders or other instruments payable to, or to the order of, FWD and received by Sun Life in respect of premiums paid or loan repayments (if any) under the Transferring Policies on or after the Transfer Date;
 - (xxi) Sun Life shall have the sole responsibility for billing and collecting premiums and paying all applicable taxes in respect of premiums received under the Transferring Policies on or after the Transfer Date;
 - (xxii) 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 FWD 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 Sun Life;
- (3) such other order(s) as this Honourable Court shall deem appropriate;
 - (4) costs of the Insurance Authority in relation to this application shall be borne by the Joint Petitioners and be paid out of their shareholders' funds.

NOTE: It is intended to serve two copies of this Petition (together with two copies of the Scheme, the Statutory Statements, the Independent Actuary's Report and the Supplementary Report) on the Insurance Authority at 19/F, 41 Heung Yip Road, Wong Chuk Hang, Hong Kong within 3 days of the date of this Petition.

DATED this ^{1th} day of *Sep* 2020.

A handwritten signature in black ink, appearing to read "Baker McKenzie", written in a cursive style.

Baker & McKenzie

This Petition was issued by Baker & McKenzie of 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, solicitors for the Joint Petitioners.

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. OF 2020

IN THE MATTER of FWD LIFE INSURANCE
COMPANY (BERMUDA) LIMITED
1st Petitioner

and

IN THE MATTER of SUN LIFE HONG KONG
LIMITED
2nd Petitioner

and

IN THE MATTER of AN APPLICATION UNDER
SECTIONS 24 AND 25 OF THE INSURANCE
ORDINANCE (CAP 41)

ANNEXURE 1

This is the "Annexure 1" referred to in the Petition dated this 1st day of September 2020.

<u>Date</u>	<u>Description of Document</u>	<u>No. of Pages</u>
-	Copy of the Scheme	21

SCHEME

for the transfer of certain Hong Kong long term business of

FWD Life Insurance Company (Bermuda) Limited

to

Sun Life Hong Kong Limited.

pursuant to sections 24 and 25 of the Insurance Ordinance
(Chapter 41 of the Laws of Hong Kong)

and pursuant to section 25 of the Bermuda Insurance Act 1978

[Date]

Baker & McKenzie
14th Floor, One Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

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A. PRELIMINARY

1. DEFINITION

- 1.1 In this Scheme, terms and expressions defined in the Ordinance shall bear the same meanings as defined therein and the following terms and expressions shall bear the meanings specified opposite to them:

Act	the Bermuda Insurance Act 1978;
Appointed Actuary	in respect of FWD or Sun Life, the person who is appointed as its actuary pursuant to section 15(1)(b) of the Ordinance;
Bermuda Court	the Supreme Court of Bermuda;
Bermuda Order	an order by the Bermuda Court (if granted) pursuant to section 25 of the Act (including any subsequent order) sanctioning this Scheme and making further provisions for its implementation;
BMA	the Bermuda Monetary Authority;
Business	the long term business (as defined in the Ordinance) carried out by FWD in respect of the Transferring Policies;
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
Class G Policies	insurance policies in the nature of class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance);
Encumbrance	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;
FWD	FWD Life Insurance Company (Bermuda) Limited, a company incorporated in Bermuda (and registered as a non-Hong Kong company with registered number F0003114) whose principal place of business is at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong;
FWDPT	FWD Pension Trust Limited, a company incorporated in Hong Kong (registered number 0678409), whose registered office is at Room 2506,

	FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong. Its name was changed to SLPT after having been sold by FWD to Sun Life, as described in paragraph 2.10;
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China;
Hong Kong Court	the Court of First Instance of the High Court of Hong Kong;
Hong Kong Order	the order of the Hong Kong Court (if granted) pursuant to sections 24 and 25 of the Ordinance (including any subsequent order) sanctioning this Scheme and making further provisions for its implementation;
Implementation Agreement	the implementation agreement dated 3 August 2016, entered into by, among others, FWD Management Holdings Limited and Sun Life in relation to, inter alia, (i) the sale and purchase of the then FWDPT and (ii) the transfer of all the Transferring Policies from FWD to Sun Life;
Insurance Authority	the Insurance Authority established under the Ordinance;
MPF Schemes	(i) the Sun Life MPF Basic Scheme (永明強積金基本計劃) (formerly known as FWD MPF Master Trust Basic Scheme (富衛強積金集成信託基本計劃)), (ii) the Sun Life MPF Comprehensive Scheme (永明強積金綜合計劃) (formerly known as FWD MPF Master Trust Comprehensive Scheme (富衛強積金集成信託綜合計劃)) and (iii) the Sun Life MPF Master Trust, which are master trust schemes established under the Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong);
New MPF Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the MPF Schemes, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
New ORSO Sub-Funds (Class G)	New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G);

New ORSO Capital Guaranteed Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the guaranteed obligations under the relevant ORSO Scheme, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
New ORSO Non-Guaranteed Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the non-guaranteed obligations under the relevant ORSO Scheme, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
ORSO Schemes	FWD Capital Guaranteed Plan and FWD Multi-Funding Provident Plan;
Ordinance	the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong);
Residual Asset	<p>(i) any property, assets or investment of FWD (including any right, discretion, authority, power or benefit of FWD under or by virtue of any Transferring Policies) and such other property, asset or investment as is attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but in respect of which, as at the Transfer Date, either:</p> <p>(a) the consent of any person or persons (other than FWD, Sun Life, the Hong Kong Court or the Bermuda Court) is required but has not been obtained; or</p> <p>(b) the waiver by any person or persons of any right to acquire, or to be offered the right to, or to offer to, acquire or procure the acquisition of, all or any part of such property or asset is required but has not been obtained; or</p> <p>(c) FWD and Sun Life agree that its transfer should be delayed;</p>

but to the extent only of that part of the interest of FWD in such property or asset the transfer of which such consent and/or waiver is required and/or such agreement is reached;

- (ii) any proceeds of sale or income or other accrual or return whatsoever, whether or not in the form of cash, from time to time earned or received in respect of such property or asset referred to in sub-paragraph (i) of this definition;

Residual Liability

any liability whatsoever of FWD:

- (i) which is attributable to or connected with a Residual Asset and arises at any time before the Subsequent Transfer Date in relation to such Residual Asset; or
- (ii) the transfer of which to Sun Life pursuant to this Scheme requires, as at the Transfer Date, the consent of any person or persons (other than FWD, Sun Life, the Hong Kong Court or the Bermuda Court) or waiver of any person or persons and which is attributable to or connected with the Business but has not been obtained;

Scheme

this scheme in its original form with or subject to any modification or condition which the Hong Kong Court and the Bermuda Court shall approve or impose or any modification made pursuant to paragraph 11.3;

Statutory Records

all books, files, registers, documents, correspondence, papers and other records that are required, by the applicable legal or regulatory requirement or corporate governance (whether or not having the force of law), to be kept by FWD and retained in its possession in respect of the Business;

Subsequent Transfer Date

in relation to any Residual Asset or Residual Liability, the date (falling after the Transfer Date) on which the transfer of such Residual Asset or Residual Liability provided for by this Scheme shall take effect and such Residual Asset or Residual Liability shall vest in Sun Life, being:

- (i) in respect of any Residual Asset falling within sub-paragraph (i)(a) or (b) of the definition thereof; and any Residual Liability, the date on which the requisite consent or requisite waiver to enable the same to be transferred to Sun Life upon the terms of this Scheme are:
 - (a) obtained; or
 - (b) no longer required; or
 - (c) dispensed with by the Hong Kong Court and the Bermuda Court; or
- (ii) in respect of any Residual Asset falling within sub-paragraph (i)(c) of the definition thereof, the date on which FWD and Sun Life agree that the transfer should take effect; or
- (iii) in respect of any Residual Asset falling within sub-paragraph (ii) of the definition thereof, the date on which such Residual Asset is received or earned by FWD;

Sun Life

Sun Life Hong Kong Limited, a company incorporated in Bermuda (and registered as a non-Hong Kong company with registered number F0003725) whose registered office is at 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong;

Sun Life Class G Fund

the account maintained by Sun Life in respect of its class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance) pursuant to section 22 (1)(a) of the Ordinance;

SLPT

Sun Life Pension Trust Limited, the new name of FWDPT after it was sold by FWD to Sun Life, as described in paragraph 2.10;

Transfer Date

the time and date on which this Scheme shall become effective in accordance with paragraph 10 of this Scheme;

Transferring Assets

the property, assets or investment of FWD (including any right, discretion, authority, power or benefit of FWD under or by virtue of any Transferring Policies) as are attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but do not include the Residual Assets;

Transferring Liabilities

all liabilities of FWD as at the Transfer Date attributable to the Business including, without limitation, the liabilities and obligations (whether present, future or contingent) under and in relation to the Transferring Policies (including, without limitation, the guarantee obligations thereunder) which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but do not include the Residual Liabilities; and

Transferring Policies

all Class G Policies underwritten in or from Hong Kong by FWD under and in respect of the MPF Schemes and ORSO Schemes as at the Transfer Date, as detailed in the Schedule hereto, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements in connection therewith. For the avoidance of doubt, the policies in respect of FWD's staff plan and agency plans, namely the FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, Long Service Incentive Scheme, Long Service Bonus Scheme and VNB Fund Scheme, are not included in this Scheme.

1.2 In this Scheme, any reference to:

- (a) a "class" shall be to a class of long term or general business specified in Part 2 or Part 3 (as the case may be) of the Schedule 1 to the Ordinance;
- (b) the term "property" includes (without limitation) property, assets, rights (whether present, future, vested or contingent), discretions, authorities, benefits and powers of every description;
- (c) the term "liabilities" includes (without limitation) duties and obligations of every description (whether present, future or contingent); and
- (d) "including" or "includes" means including or includes without limitation.

1.3 Any reference to the singular includes a reference to the plural and vice versa.

1.4 Unless otherwise specified, any reference to any act, statute, ordinance or regulation shall be to such act, statute, ordinance or regulation as amended from time to time.

B. INTRODUCTION

2. FWD AND SUN LIFE

- 2.1 FWD was incorporated in Bermuda on 13 April 1977, under the name of Rauco Insurance Company Limited. FWD is part of the FWD Group, which is the insurance business arm of investment group, Pacific Century Group, with minority shareholders, including Swiss Re Group. Pacific Century Group acquired ING Groep N.V.'s life insurance business (including FWD) in March 2013 and established the brand FWD in August 2013. FWD is currently an indirect wholly-owned subsidiary of FWD Limited through intermediate holding companies.

FWD has an issued share capital of US\$830,200,000 as of the financial year ended on 31 December 2019.

- 2.2 The principal business of FWD is the carrying on of long term business in Hong Kong. FWD is regulated in Bermuda by the BMA and has a class E and a class 3 licence under the Act.
- 2.3 FWD is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance. FWD is authorized by the Insurance Authority under the Ordinance to carry on long-term business of class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I) and class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. The principal place of business of FWD in Hong Kong is 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong.
- 2.4 As part of its long term business, FWD carries on retirement fund business in Hong Kong, which includes both the MPF Schemes and ORSO Schemes. Prior to the sale of FWDPT as described in paragraph 2.10 below, FWD owned 20% of its issued share capital and was the trustee of the MPF Schemes. Each of the MPF Schemes and ORSO Schemes invests in one or more of the Transferring Policies issued by FWD. As at 31 December 2019, the Business of FWD consisted of 71 Transferring Policies, as detailed in the Schedule hereto.
- 2.5 Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life is wholly-owned by Sun Life Assurance Company of Canada, a company incorporated in Canada. Sun Life has an issued share capital of HK\$3.527 billion as of 31 December 2019.
- 2.6 The principal business of Sun Life is the carrying on of long term business in Hong Kong. Sun Life is regulated in Bermuda by the BMA and has a class E licence under the Act.
- 2.7 Sun Life is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance. Sun Life is authorized by the Insurance Authority under the Ordinance to carry on long-term business of class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I), class H (retirement scheme management category II) and class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. The registered office of Sun Life in Hong Kong is 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong.
- 2.8 As at 31 December 2019, Sun Life had 80 Class G Policies issued and maintained for its MPF scheme and various ORSO schemes in Hong Kong.
- 2.9 On 3 August 2016, FWD Management Holdings Limited (being a part of the FWD Group) and Sun Life entered into the Implementation Agreement in relation to the disposal of FWD's MPF and ORSO businesses in Hong Kong.
- 2.10 The disposal includes, inter alia, (i) the sale of the shareholding of the then FWDPT, the trustee of certain MPF Schemes (i.e., the then FWD MPF Master Trust Basic Scheme and FWD MPF Master Trust Comprehensive Scheme, which were renamed respectively as Sun Life MPF Basic Scheme and Sun Life MPF Comprehensive Scheme), to Sun Life (and its nominees); and (ii) the transfer from FWD to Sun Life the Class G Policies underlying the MPF Schemes and ORSO Schemes. The sale of the then FWDPT had been completed on the first completion date, 3 October 2017, and the name of FWDPT was subsequently changed to SLPT.
- 2.11 The transfer of the Business is therefore part of the transaction contemplated under the Implementation Agreement.

- 2.12 The purpose of this Scheme is to transfer the Business from FWD to Sun Life pursuant to (i) sections 24 and 25(1) of the Ordinance; and (ii) section 25 of the Act. Under the Implementation Agreement, in respect of the Transferring Policies, FWD Management Holdings Limited agreed to transfer to Sun Life (and/or its nominee(s)) cash and/or the legal and beneficial title in "eligible assets" with a "fair market value" equal to FWD's estimate of the class G required provisions (which shall include the provision for account balance, the provision for investment guarantee and the provision for the smoothing of investment returns) as at 12:01 a.m. (Hong Kong time) of the second completion date of the Implementation Agreement, in accordance with the terms of the Implementation Agreement.
- 2.13 It is proposed by FWD and Sun Life that applications shall be made to the Hong Kong Court and the Bermuda Court under section 24 of the Ordinance and section 25 of the Act, respectively, such that the Business shall be transferred from FWD to Sun Life in accordance with the terms of this Scheme and subject to the Hong Kong Order made pursuant to sections 24 and section 25(1) of the Ordinance and the Bermuda Order made pursuant to section 25 of the Act.
- 2.14 The transfer contemplated under this Scheme will not proceed unless this Scheme is sanctioned by the Hong Kong Order and the Bermuda Order.

C. THE TRANSFER PROVISIONS

3. TRANSFER OF ASSETS

- 3.1 On and with effect from the Transfer Date, the Transferring Assets shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof.
- 3.2 On and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof.
- 3.3 If:
- (1) any property or asset of FWD, which would otherwise fall within the definition of Transferring Assets, is not, or is not capable of being, immediately transferred to and effectively vested in Sun Life on the Transfer Date by the Hong Kong Order and the Bermuda Order by reason of:
 - (i) such property or asset being a Residual Asset; or
 - (ii) the transfer of such property or asset being outside the jurisdiction of the Hong Kong Court or the Bermuda Court; or
 - (iii) for any other reason; or
 - (2) the transfer of any property or asset which falls within the definition of Transferring Assets but which is situated outside the jurisdiction of the Hong Kong Court or the Bermuda Court and is not recognised by the laws of the jurisdiction in which such property or asset is situated,

FWD shall, on and with effect from the Transfer Date, hold any property or asset referred to in sub-paragraphs (1) or (2) above, as trustee and in trust for Sun Life absolutely and shall be

subject to Sun Life's directions in respect thereof until the relevant property or asset is transferred to or otherwise vested in Sun Life or is disposed of (whereupon FWD shall account to Sun Life for the proceeds of sale thereof), and Sun Life shall have authority to act as the attorney of FWD in respect of such property or asset for all such purposes.

3.4 Sun Life shall accept without investigation or requisition such title as FWD shall have at the Transfer Date to each Transferring Asset and at each Subsequent Transfer Date to the Residual Asset then transferred.

3.5 FWD and Sun Life 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, Sun Life of any Transferring Asset or Residual Asset.

4. TRANSFER OF LIABILITIES

4.1 On and with effect from the Transfer Date, each Transferring Liability shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume, any liability in respect of such Transferring Liability.

4.2 On and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume any liability in respect of such Residual Liability.

4.3 If:

(1) any obligation or liability of FWD which would otherwise fall within the definition of Transferring Liabilities is not, or is not capable of being, immediately transferred and effectively vested in Sun Life on the Transfer Date by the Hong Kong Order and the Bermuda Order by reason of:

(i) such obligation or liability being a Residual Liability; or

(ii) the transfer of such obligation or liability being outside the jurisdiction of the Hong Kong Court or the Bermuda Court; or

(iii) for any other reason; or

(2) the transfer of any obligation or liability which falls within the definition of Transferring Liabilities but is governed by the law of a jurisdiction other than Hong Kong or Bermuda and is not recognised by the laws of the jurisdiction which govern such obligation or liability,

then Sun Life shall from and after the Transfer Date perform any such obligation or satisfy any such liability as referred to in sub-paragraphs (1) or (2) above on behalf of FWD, or failing that, indemnify FWD against such obligation and liability.

4.4 FWD and Sun Life 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, Sun Life of any Transferring Liability or any Residual Liability.

5. TRANSFER OF TRANSFERRING POLICIES

- 5.1 On and with effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD under, or by virtue of, the Transferring Policies. The Transferring Policies shall on and with effect from the Transfer Date form part of Sun Life's long term business carried on in or from Hong Kong.
- 5.2 On and with effect from the Transfer Date, all rights and powers against FWD available to the policy holder of every Transferring Policy shall cease and shall be substituted by the same rights and powers against Sun Life. On the Transfer Date, all Statutory Records and other information relating to the policy holders, 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 (Chapter 486 of the Laws of Hong Kong)) of such policy holders, insureds, beneficiaries, assignees and other persons, which is held by FWD shall be transferred to Sun Life, and Sun Life shall have the same rights and powers in holding and using (and transferring) such information as those of FWD prior to the Transfer Date.
- 5.3 In respect of the Transferring Policies under which premiums continue to be payable, the policy holders of the Transferring Policies shall account to Sun Life for any further premiums as and when they become due. Sun Life 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 FWD prior to the transfer.
- 5.4 Sun Life 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 Sun Life and not FWD had issued the Transferring Policies.
- 5.5 All terms and conditions of the Transferring Policies (including application forms, illustrative documents, principal brochures, riders, schedules and declarations) shall remain unchanged save that, on and with effect from the Transfer Date, all references in the Transferring Policies to FWD, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents shall be read as reference to Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be); and any reference to "FWD" in the names of the Transferring Policies will be changed to "Sun Life". In particular, but without limitation, all rights and duties exercisable or expressed to be exercisable or responsibilities to be performed by FWD, 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 Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be).

6. CONTINUATION OF LEGAL PROCEEDINGS

- 6.1 By virtue of the Hong Kong Order and the Bermuda Order, on and with effect from the Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Transferring Policies, Transferring Assets or Transferring Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

- 6.2 By virtue of the Hong Kong Order and the Bermuda Order, on and with effect from the applicable Subsequent Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Residual Assets or Residual Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

D. THE NEW INSURANCE FUNDS BY SUN LIFE

7. THE NEW SUN LIFE INSURANCE FUNDS

Establishment of New Sun Life Insurance Funds

- 7.1 Effective from the Transfer Date, Sun Life shall establish three new sub-funds under the Class G Fund, namely New MPF Sub-Fund (Class G), New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G). They shall be maintained by Sun Life as separate sub-accounts under the Sun Life Class G Fund.

Allocation of Policies, Assets and Liabilities

- 7.2 On and with effect from the Transfer Date, all Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); and all Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).
- 7.3 On and with effect from the Transfer Date, all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).
- 7.4 Each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G); and each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New ORSO Sub-Funds (Class G).
- 7.5 All beneficial interest in any property, assets or investments held on trust by FWD for Sun Life pursuant to paragraph 3.3 above shall be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be) to which such property, assets or investments would have been allocated had it constituted a Transferring Asset.
- 7.6 On and with effect from the Transfer Date, all Transferring Liabilities of FWD which are attributable to the Transferring Policies shall be allocated to and become part of the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be).
- 7.7 Each Residual Liability of FWD which is attributable to the Transferring Policies shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be).

- 7.8 All liabilities which are required to be satisfied by Sun Life pursuant to paragraph 4.3 above shall be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be) to which such liabilities would have been allocated had it constituted a Transferring Liability.

E. MISCELLANEOUS PROVISIONS

8. PREMIUMS AND MANDATES

- 8.1 All premiums, loan repayments (if any, and interest thereon) and other amounts received or receivable by FWD in respect of any of the Transferring Policies on or after the Transfer Date shall be payable to Sun Life after the Transfer Date.
- 8.2 Sun Life shall be irrevocably authorized to endorse for payment any cheques, drafts, orders, postal orders or other instruments payable to, or to the order of, FWD and received by Sun Life in respect of premiums paid or loan repayments (if any) under the Transferring Policies on or after the Transfer Date.
- 8.3 Sun Life shall have the sole responsibility for billing and collecting premiums and paying all applicable taxes in respect of premiums received under the Transferring Policies on or after the Transfer Date.
- 8.4 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 FWD 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 Sun Life.

9. COSTS

FWD and Sun Life shall, out of their respective shareholders' funds, pay in equal share all costs in relation to the preparation of this Scheme and of its presentation to the Hong Kong Court and the Bermuda Court respectively for sanction and all other professional fees related thereto. None of such costs shall be borne by the funds maintained by FWD or Sun Life pursuant to the Ordinance in respect of their respective long term business, the Transferring Policies or other policies of FWD or Sun Life, or the policy holders thereof.

10. TRANSFER DATE

- 10.1 This Scheme shall become effective at 12:01 a.m. hours (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the Hong Kong Order and the Bermuda Order are granted, in each case sanctioning this Scheme. Subject to the grants of the Hong Kong Order and Bermuda Order, it is expected that the Scheme will take effect on [1 December 2020] but it may be subject to change.
- 10.2 Unless this Scheme shall become effective on or before 90 days after the later of the dates on which the Hong Kong Order and the Bermuda Order are granted, or such later date and/or time, if any, as FWD and Sun Life may decide and the Hong Kong Court and the Bermuda Court may allow, it shall lapse.

11. MODIFICATION

- 11.1 Subject to paragraph 11.3, FWD and Sun Life may apply to the Hong Kong Court and the Bermuda Court for consent to modify, vary or amend the terms of this Scheme, provided that:

- (a) the proposed modification, variation or amendment has been approved by the respective Appointed Actuaries and board of directors of both FWD and Sun Life;
 - (b) the Insurance Authority and the BMA have been notified of, and have the right to be heard at any hearing of the court at which such application is considered. In the case of the Insurance Authority, 3 months' prior written notice shall be given; and
 - (c) such application shall be accompanied by a report from an independent actuary to the effect that in his opinion, the proposed modification, variation or amendment will not materially and adversely affect the reasonable benefit expectations of, the financial security of or the level of service to the policy holders of the Transferring Policies, the policy holders of the non-transferring policies of FWD, or the existing policy holders of Sun Life.
- 11.2 Subject to paragraph 11.3, the terms of this Scheme shall be modified, varied or amended in accordance with such sanction as may be given by the Hong Kong Court and the Bermuda Court under paragraph 11.1.
- 11.3 The sanction of the Hong Kong Court and the Bermuda Court shall not be required in relation to:
- (a) modification(s), variation(s) or amendment(s) to correct manifest error(s) of this Scheme; or
 - (b) when the modification(s), variation(s) or amendment(s) is/are reasonably considered by FWD and Sun Life to be necessary to ensure that the provisions of this Scheme operate in the intended manner where there is a change in the relevant laws or regulations;

provided that the Insurance Authority and the BMA have been notified of the same and has indicated that they do not object thereto.

12. GOVERNING LAW

This Scheme shall be governed by the laws of Hong Kong subject to any procedural issues in connection with the Petition under section 25 of the Act being governed by Bermuda law.

The Schedule

The Transferring Policies as of 31 December 2019

List of Class G Policies – MPF Schemes

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

List of Class G Policies – ORSO Schemes

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan
10	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	11000207	27-Jun-95	FWD Multi-Funding Provident Plan
11	EL Grande Holdings Limited Provident Fund Scheme	15000932	12-May-98	FWD Multi-Funding Provident Plan
12	Fatti Components Limited Employees' Retirement Scheme	11000031	25-May-95	FWD Capital Guaranteed Plan
13	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	15000214	07-Feb-06	FWD Multi-Funding Provident Plan
14	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan
15	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan
16	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan
17	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan
18	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan
19	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan
20	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan
21	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan
22	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan
23	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
24	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan
25	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan
26	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan
27	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan
28	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan
29	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan
30	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan
31	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan
32	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan
33	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan
34	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan
35	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan
36	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan
37	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan
38	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
39	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan
40	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan
41	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan
42	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi-Funding Provident Plan
43	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan
44	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan
45	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan
46	St. James' Settlement Provident Fund Scheme (1)	11000117	07-Sep-95	FWD Capital Guaranteed Plan
47	Sunny Creations Limited Provident Fund Scheme	11000354	25-May-95	FWD Capital Guaranteed Plan
48	Technik Industrial Co. Ltd. Provident Fund Scheme	11000299	28-Apr-95	FWD Multi-Funding Provident Plan
49	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	15001034	12-Jul-11	FWD Multi-Funding Provident Plan
50	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan
51	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan
52	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan
53	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
54	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan
55	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan
56	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan
57	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan
58	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan
59	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan
60	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan
61	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan
62	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan
63	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan
64	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan
65	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	81000102 3	24-Oct-11	FWD Capital Guaranteed Plan
66	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
67	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)
68	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)

HCMP 1440/2020

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE
REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS
NO. 1440 OF 2020

IN THE MATTER of FWD LIFE INSURANCE
COMPANY (BERMUDA) LIMITED
1st Petitioner

and

IN THE MATTER of SUN LIFE HONG KONG
LIMITED
2nd Petitioner

and

IN THE MATTER of AN APPLICATION
SECTIONS 24 AND 25 OF THE INSURANCE
ORDINANCE (CAP 41)

PETITION

DATED the 11th day of September 2020
FILED the 11th day of September 2020

Baker & McKenzie
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Tel: 2846 1888
Solicitors for the Joint Petitioners
(Ref: MT)

Bermuda Petition dated 11 September 2020

**IN THE SUPREME COURT OF BERMUDA
(COMMERCIAL COURT)**

2020: No.

**IN THE MATTER OF FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
AND IN THE MATTER OF SUN LIFE HONG KONG LIMITED
AND IN THE MATTER OF SECTION 25 OF THE INSURANCE ACT 1978**

PETITION

TO THE SUPREME COURT OF BERMUDA:

THE HUMBLE PETITION of the above named Petitioners, FWD Life Insurance Company (Bermuda) Limited (**FWD Life**) and Sun Life Hong Kong Limited (**Sun Life**).

SHOWS as follows:-

1. The object of this Petition is to obtain the sanction of the Court under section 25 of the Insurance Act 1978 (**Insurance Act**) to a scheme (the **Scheme**) a copy of which is annexed to this Petition marked "A" for the transfer to Sun Life of the long-term business (as defined in section 1 of the Insurance Act) (**Long-term Business**) carried on by FWD Life.

Terms not otherwise defined in this Petition bear the meaning ascribed to them in the Scheme.

Background of the Parties

2. (a) FWD Life is a Bermuda exempted company which was incorporated on 13 April 1977 under the name of Rauco Insurance Company Limited. FWD Life is part

of the FWD Group, which is the insurance business 'arm' of Pacific Century Group, an investment group. Its principal place of business in Hong Kong is situated at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong.

- (b) FWD Life's principal business is carrying on Long-term Business in Hong Kong.
 - (c) FWD Life is regulated in Bermuda by the Bermuda Monetary Authority (**BMA**) and holds a class E and a class 3 licence pursuant to the Insurance Act 1978 (**Insurance Act**).
 - (d) FWD Life is also registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance, Cap. 622 of the Laws of Hong Kong (**Ordinance**). FWD Life is authorized by the Hong Kong Insurance Authority (**IA**) to carry out certain categories of long-term business as categorized by the Insurance Ordinance, Cap. 41 of the Laws of Hong Kong (**Insurance Ordinance**).
 - (e) FWD Life has an issued share capital of US\$830,200,000 as at 31 December 2019.
- 3.
- (a) Sun Life was incorporated as an exempted company in Bermuda on 15 October 1985. Sun Life is a wholly-owned subsidiary of Sun Life Assurance Company of Canada, a company incorporated in Canada and is registered in Hong Kong as a non-Hong Kong company under the Ordinance.
 - (b) Sun Life's principal business is carrying on Long-term Business in Hong Kong.
 - (c) Sun Life is regulated in Bermuda by the BMA and has a class E licence pursuant to the Insurance Act.
 - (d) Sun Life is also authorized by the IA under the Insurance Ordinance to carry on certain classes of Long-term Business as categorized by the Insurance Ordinance.
 - (e) Sun Life has an issued share capital of HK\$3.527 billion as of 31 December 2019.

Background to the Transfer of the Long-term Business

4. On 3 August 2016, FWD Management Holdings Limited (**FMH**) (as the controlling shareholder of FWD Life) and Sun Life entered into an agreement (**Implementation Agreement**) which provided for the disposal of FWD Life's mandatory provident fund (**MPF**) and occupational retirement scheme ordinance (**ORSO**) businesses in Hong Kong.
5. FWD Life's MPF and ORSO businesses in Hong Kong consisted of the following:
 - i. Sun Life MPF Basic Scheme (formerly known as FWD MPF Master Trust Basic Scheme;
 - ii. Sun Life MPF Comprehensive Scheme (formerly known as FWD MPF Master Trust Comprehensive Scheme);
 - iii. The Class G Policies underlying the Sun Life MPF Master Trust (defined at paragraph 7 below)(formerly known as Schroder MPF Master Trust);
 - iv. FWD Capital Guaranteed Plan; and
 - v. FWD Multi-Funding Provident Plan.
6. The MPF schemes in (i) to (iii) are referred to as the "**MPF Schemes**" and the ORSO schemes in (iv) to (v) are referred to as the "**ORSO Schemes**".
7. The disposal contemplated, *inter alia*:
 - i. the sale of FWD Pension Trust Limited (the trustee of FWD MPF Schemes described at paragraph 5(i) and (ii) above to Sun Life (and its nominees); and
 - ii. the transfer of FWD Life's long-term policies underlying its respective MPF and ORSO schemes to Sun Life categorized as "Class G (retirement scheme management category I) long term business" (**Class G Policies**).
8. The sale of the then FWD Pension Trust Limited completed on 3 October 2017 (referenced under the Implementation Agreement as the "**First Completion Date**") after which the company's name was subsequently changed to Sun Life Pension Trust Limited.

9. As at 31 December 2019, there are 71 Class G Policies underlying the MPF and ORSO Schemes, the details of which are set out in the Schedule to the Scheme (**Transferring Policies**). The transfer of these policies is part of the transaction contemplated under the Implementation Agreement.
10. As at 31 December 2019, Sun Life has 80 Class G Policies issued and maintained for its MPF and ORSO Schemes in Hong Kong. It is expected that the proposed transfer of the Transferring Policies will add scale to Sun Life's existing Class G long-term business while capitalizing on Sun Life's expertise in retirement products. Further, the transfer will offer economies of scale and enhance operational efficiencies and service standards of the relevant businesses.

Transfer of the Long-term Business

11. Pursuant to the Implementation Agreement, it was agreed that the Class G Policies underlying the MPF and ORSO Schemes issued by FWD Life (which are also detailed in the Schedule to the Scheme) will be transferred to Sun Life upon receiving the respective approval of the Supreme Court of Bermuda and the Court of First Instance of the High Court of Hong Kong.
12. The transfer shall take place at 12:01 am hours (Hong Kong time) on such date as FWD Life and Sun Life may decide which date shall be within 90 days after the later of the dates on which the Court of First Instance of the High Court of Hong Kong and the Bermuda Supreme Court has made an order sanctioning the Scheme.
13. The Class G Policies to be transferred pursuant to the Implementation Agreement include Long-term Business being business to which section 25 of the Insurance Act applies.
14. According to FWD Life's records, as of 31 December 2019, the Transferring Policies comprised as follows:

Policy description	Number of Policies	Amount of Net Liabilities (HK\$ million)
MPF	3	889
ORSO	68	1,853
Total	71	2,742

Terms of the transfer of the Long-term Policies

15. The Scheme provides, inter alia, for the transfer of the Business (being defined to mean *"the long term business (as defined in the Insurance Ordinance) carried out by FWD Life in respect of the Transferring Policies and includes the Transferring Policies"*) on the following key terms:
- i. On and with effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD Life under, or by virtue of, the Transferring Policies. The Transferring Policies shall on and with effect from the Transfer Date form part of Sun Life's long term business carried in or from Hong Kong (clause 5.1).
 - ii. On and with effect from the Transfer Date, each Transferring Liability (being defined to mean *"all liabilities of FWD Life as at the Transfer Date attributable to the Business including, without limitation, the liabilities and obligations (whether present, future or contingent) under and in relation to the Transferring Policies (including, without limitation, the guarantee obligations thereunder) which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but shall not include the Residual Liabilities"*) shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD Life to, and become a liability of, Sun Life with the effect that FWD Life shall be entirely released from and Sun Life shall assume any liability in respect of such Transferring Liability (clause 4.1).

iii. On and with effect from the Transfer Date, the Transferring Assets (being defined to mean *"the property, assets or investment of FWD Life (including any right, discretion, authority, power or benefit of FWD Life under or by virtue of any Transferring Policies) as is attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, other than the Residual Assets"*) shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD Life to, and vested in, Sun Life subject to any Encumbrances in respect thereof (clause 3.1).

iv. On and with effect from the Transfer Date, all rights and powers against FWD Life available to the policy holder of every Transferring Policy shall cease and shall be substituted by the same rights and powers against Sun Life. Sun Life 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 Sun Life and not FWD Life had issued the Transferring Policies (clauses 5.2 and 5.4).

16. The transfer of the Transferring Policies to Sun Life pursuant to the Scheme is also conditional upon, inter alia, receipt of all necessary regulatory approvals from (i) the Mandatory Provident Fund Schemes Authority ("**MPFA**") and the Securities and Futures Commission ("**SFC**") in Hong Kong (which are required in respect of the transfer of the Transferring Policies issued under the MPF Schemes); (ii) the approval or non-objection of the BMA in Bermuda, and (iii) the Scheme is sanctioned by this Honourable Court and the Court of First Instance of the High Court of Hong Kong.

Approved Actuary Report and Supplementary Report

17. Effective 3 May 2019, the BMA designated and approved Mr. Clement Bonnet as the Approved Actuary for purposes of section 25 of the Insurance Act.
18. Pursuant to section 25(3) of the Insurance Act, the Approved Actuary has prepared a report prepared as of 31 December 2018 and dated 15 May 2019 on the terms of the Scheme providing his opinions on the likely effects of the Scheme on the policyholders of the Transferring Policies and the non-transferring policies of FWD Life and the existing policy holders of Sun Life, a copy of which is filed herewith marked "**B**"

(**Approved Actuary's Report**). The Approved Actuary states his opinion in this report that:

- a. The Scheme will have no material adverse effect on the reasonable benefit expectations of the policy holders of the Transferring Policies and the non-transferring policies of FWD Life or the existing policy holders of Sun Life.
 - b. The Scheme will have no material adverse effect on the financial security of the policy holders of the Transferring Policies and the non-transferring policies of FWD Life or the existing policy holders of Sun Life.
 - c. The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD Life and Sun Life.
 - d. He is satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.
19. On 14 August 2020, the Approved Actuary issued a supplementary report on the terms of the Scheme providing his opinions on the likely effects of the Scheme on the policyholders of the Transferring Policies and the non-transferring policies of FWD Life and the existing policy holders of Sun Life to reflect the company's updated financial position as of 31 December 2019 (**Supplementary Report**), a copy of which is filed herewith marked "C". A copy of this report has been provided to the Authority and to the Court.
20. In the Supplementary Report, the Approved Actuary states that he has considered relevant developments brought to his attention by FWD Life and Sun Life since the completion of the Approved Actuary's Report and that he not changed his conclusions regarding the likely effects of the Scheme.
21. A copy of the Supplementary Report will be posted on the website maintained by the Petitioners at www.fwd.com.hk/en/ and www.sunlife.com.hk once issued and will be maintained until orders are made in the respective Hong Kong and Bermuda Courts sanctioning the transfer. The Petitioners will provide the policyholders of the Transferring Policies with details of how this report can be accessed online.

No objection to the proposed transfer of Long-term Business by the Authority

22. FWD Life's Bermuda attorneys, Appleby (Bermuda) Limited, forwarded to the BMA, a draft of the Petition, the Scheme, a draft of this Affidavit, the First Sun Life Affidavit, the Approved Actuary's Report and the Supplementary Report.
23. By its letter dated 17 September 2020, the BMA advised that it has no objection to the proposed transfer under the Scheme.

YOUR PETITIONERS PRAY FOR THE FOLLOWING:

- (1) an Order pursuant to section 25 of the Insurance Act sanctioning the provisions of the Scheme; and
- (2) such other Order(s) as this Honourable Court shall consider appropriate.

NOTE: It is intended to serve this Petition (together with a copy of the Approved Actuary's Report) on the BMA, but no other person.

Dated this 23rd day of September 2020

Appleby (Bermuda) Limited
APPLEBY (BERMUDA) LIMITED
Attorneys for the Petitioners

This Petition was issued by Appleby (Bermuda) Limited, Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, Attorneys for the Petitioners.

ANNEX A

SCHEME

SCHEME

for the transfer of certain Hong Kong long term business of

FWD Life Insurance Company (Bermuda) Limited

to

Sun Life Hong Kong Limited.

pursuant to sections 24 and 25 of the Insurance Ordinance
(Chapter 41 of the Laws of Hong Kong)

and pursuant to section 25 of the Bermuda Insurance Act 1978

[Date]

Baker & McKenzie
14th Floor, One Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

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A. PRELIMINARY

1. DEFINITION

- 1.1 In this Scheme, terms and expressions defined in the Ordinance shall bear the same meanings as defined therein and the following terms and expressions shall bear the meanings specified opposite to them:

Act	the Bermuda Insurance Act 1978;
Appointed Actuary	in respect of FWD or Sun Life, the person who is appointed as its actuary pursuant to section 15(1)(b) of the Ordinance;
Bermuda Court	the Supreme Court of Bermuda;
Bermuda Order	an order by the Bermuda Court (if granted) pursuant to section 25 of the Act (including any subsequent order) sanctioning this Scheme and making further provisions for its implementation;
BMA	the Bermuda Monetary Authority;
Business	the long term business (as defined in the Ordinance) carried out by FWD in respect of the Transferring Policies;
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
Class G Policies	insurance policies in the nature of class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance);
Encumbrance	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;
FWD	FWD Life Insurance Company (Bermuda) Limited, a company incorporated in Bermuda (and registered as a non-Hong Kong company with registered number F0003114) whose principal place of business is at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong;
FWDPT	FWD Pension Trust Limited, a company incorporated in Hong Kong (registered number 0678409), whose registered office is at Room 2506,

	FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong. Its name was changed to SLPT after having been sold by FWD to Sun Life, as described in paragraph 2.10;
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China;
Hong Kong Court	the Court of First Instance of the High Court of Hong Kong;
Hong Kong Order	the order of the Hong Kong Court (if granted) pursuant to sections 24 and 25 of the Ordinance (including any subsequent order) sanctioning this Scheme and making further provisions for its implementation;
Implementation Agreement	the implementation agreement dated 3 August 2016, entered into by, among others, FWD Management Holdings Limited and Sun Life in relation to, inter alia, (i) the sale and purchase of the then FWDPT and (ii) the transfer of all the Transferring Policies from FWD to Sun Life;
Insurance Authority	the Insurance Authority established under the Ordinance;
MPF Schemes	(i) the Sun Life MPF Basic Scheme (永明強積金基本計劃) (formerly known as FWD MPF Master Trust Basic Scheme (富衛強積金集成信託基本計劃)), (ii) the Sun Life MPF Comprehensive Scheme (永明強積金綜合計劃) (formerly known as FWD MPF Master Trust Comprehensive Scheme (富衛強積金集成信託綜合計劃)) and (iii) the Sun Life MPF Master Trust, which are master trust schemes established under the Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong);
New MPF Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the MPF Schemes, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
New ORSO Sub-Funds (Class G)	New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G);

New ORSO Capital Guaranteed Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the guaranteed obligations under the relevant ORSO Scheme, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
New ORSO Non-Guaranteed Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the non-guaranteed obligations under the relevant ORSO Scheme, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
ORSO Schemes	FWD Capital Guaranteed Plan and FWD Multi-Funding Provident Plan;
Ordinance	the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong);
Residual Asset	<p>(i) any property, assets or investment of FWD (including any right, discretion, authority, power or benefit of FWD under or by virtue of any Transferring Policies) and such other property, asset or investment as is attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but in respect of which, as at the Transfer Date, either:</p> <p>(a) the consent of any person or persons (other than FWD, Sun Life, the Hong Kong Court or the Bermuda Court) is required but has not been obtained; or</p> <p>(b) the waiver by any person or persons of any right to acquire, or to be offered the right to, or to offer to, acquire or procure the acquisition of, all or any part of such property or asset is required but has not been obtained; or</p> <p>(c) FWD and Sun Life agree that its transfer should be delayed;</p>

but to the extent only of that part of the interest of FWD in such property or asset the transfer of which such consent and/or waiver is required and/or such agreement is reached;

- (ii) any proceeds of sale or income or other accrual or return whatsoever, whether or not in the form of cash, from time to time earned or received in respect of such property or asset referred to in sub-paragraph (i) of this definition;

Residual Liability

any liability whatsoever of FWD:

- (i) which is attributable to or connected with a Residual Asset and arises at any time before the Subsequent Transfer Date in relation to such Residual Asset; or
- (ii) the transfer of which to Sun Life pursuant to this Scheme requires, as at the Transfer Date, the consent of any person or persons (other than FWD, Sun Life, the Hong Kong Court or the Bermuda Court) or waiver of any person or persons and which is attributable to or connected with the Business but has not been obtained;

Scheme

this scheme in its original form with or subject to any modification or condition which the Hong Kong Court and the Bermuda Court shall approve or impose or any modification made pursuant to paragraph 11.3;

Statutory Records

all books, files, registers, documents, correspondence, papers and other records that are required, by the applicable legal or regulatory requirement or corporate governance (whether or not having the force of law), to be kept by FWD and retained in its possession in respect of the Business;

Subsequent Transfer Date

in relation to any Residual Asset or Residual Liability, the date (falling after the Transfer Date) on which the transfer of such Residual Asset or Residual Liability provided for by this Scheme shall take effect and such Residual Asset or Residual Liability shall vest in Sun Life, being:

- (i) in respect of any Residual Asset falling within sub-paragraph (i)(a) or (b) of the definition thereof; and any Residual Liability, the date on which the requisite consent or requisite waiver to enable the same to be transferred to Sun Life upon the terms of this Scheme are:
 - (a) obtained; or
 - (b) no longer required; or
 - (c) dispensed with by the Hong Kong Court and the Bermuda Court; or
- (ii) in respect of any Residual Asset falling within sub-paragraph (i)(c) of the definition thereof, the date on which FWD and Sun Life agree that the transfer should take effect; or
- (iii) in respect of any Residual Asset falling within sub-paragraph (ii) of the definition thereof, the date on which such Residual Asset is received or earned by FWD;

Sun Life

Sun Life Hong Kong Limited, a company incorporated in Bermuda (and registered as a non-Hong Kong company with registered number F0003725) whose registered office is at 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hungghom, Kowloon, Hong Kong;

Sun Life Class G Fund

the account maintained by Sun Life in respect of its class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance) pursuant to section 22 (1)(a) of the Ordinance;

SLPT

Sun Life Pension Trust Limited, the new name of FWDPT after it was sold by FWD to Sun Life, as described in paragraph 2.10;

Transfer Date

the time and date on which this Scheme shall become effective in accordance with paragraph 10 of this Scheme;

Transferring Assets

the property, assets or investment of FWD (including any right, discretion, authority, power or benefit of FWD under or by virtue of any Transferring Policies) as are attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but do not include the Residual Assets;

Transferring Liabilities

all liabilities of FWD as at the Transfer Date attributable to the Business including, without limitation, the liabilities and obligations (whether present, future or contingent) under and in relation to the Transferring Policies (including, without limitation, the guarantee obligations thereunder) which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but do not include the Residual Liabilities; and

Transferring Policies

all Class G Policies underwritten in or from Hong Kong by FWD under and in respect of the MPF Schemes and ORSO Schemes as at the Transfer Date, as detailed in the Schedule hereto, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements in connection therewith. For the avoidance of doubt, the policies in respect of FWD's staff plan and agency plans, namely the FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, Long Service Incentive Scheme, Long Service Bonus Scheme and VNB Fund Scheme, are not included in this Scheme.

1.2 In this Scheme, any reference to:

- (a) a "class" shall be to a class of long term or general business specified in Part 2 or Part 3 (as the case may be) of the Schedule 1 to the Ordinance;
- (b) the term "property" includes (without limitation) property, assets, rights (whether present, future, vested or contingent), discretions, authorities, benefits and powers of every description;
- (c) the term "liabilities" includes (without limitation) duties and obligations of every description (whether present, future or contingent); and
- (d) "including" or "includes" means including or includes without limitation.

1.3 Any reference to the singular includes a reference to the plural and vice versa.

1.4 Unless otherwise specified, any reference to any act, statute, ordinance or regulation shall be to such act, statute, ordinance or regulation as amended from time to time.

B. INTRODUCTION

2. FWD AND SUN LIFE

- 2.1 FWD was incorporated in Bermuda on 13 April 1977, under the name of Rauco Insurance Company Limited. FWD is part of the FWD Group, which is the insurance business arm of investment group, Pacific Century Group, with minority shareholders, including Swiss Re Group. Pacific Century Group acquired ING Groep N.V.'s life insurance business (including FWD) in March 2013 and established the brand FWD in August 2013. FWD is currently an indirect wholly-owned subsidiary of FWD Limited through intermediate holding companies.

FWD has an issued share capital of US\$830,200,000 as of the financial year ended on 31 December 2019.

- 2.2 The principal business of FWD is the carrying on of long term business in Hong Kong. FWD is regulated in Bermuda by the BMA and has a class E and a class 3 licence under the Act.
- 2.3 FWD is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance. FWD is authorized by the Insurance Authority under the Ordinance to carry on long-term business of class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I) and class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. The principal place of business of FWD in Hong Kong is 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong.
- 2.4 As part of its long term business, FWD carries on retirement fund business in Hong Kong, which includes both the MPF Schemes and ORSO Schemes. Prior to the sale of FWDPT as described in paragraph 2.10 below, FWD owned 20% of its issued share capital and was the trustee of the MPF Schemes. Each of the MPF Schemes and ORSO Schemes invests in one or more of the Transferring Policies issued by FWD. As at 31 December 2019, the Business of FWD consisted of 71 Transferring Policies, as detailed in the Schedule hereto.
- 2.5 Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life is wholly-owned by Sun Life Assurance Company of Canada, a company incorporated in Canada. Sun Life has an issued share capital of HK\$3.527 billion as of 31 December 2019.
- 2.6 The principal business of Sun Life is the carrying on of long term business in Hong Kong. Sun Life is regulated in Bermuda by the BMA and has a class E licence under the Act.
- 2.7 Sun Life is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance. Sun Life is authorized by the Insurance Authority under the Ordinance to carry on long-term business of class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I), class H (retirement scheme management category II) and class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. The registered office of Sun Life in Hong Kong is 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hungghom, Kowloon, Hong Kong.
- 2.8 As at 31 December 2019, Sun Life had 80 Class G Policies issued and maintained for its MPF scheme and various ORSO schemes in Hong Kong.
- 2.9 On 3 August 2016, FWD Management Holdings Limited (being a part of the FWD Group) and Sun Life entered into the Implementation Agreement in relation to the disposal of FWD's MPF and ORSO businesses in Hong Kong.
- 2.10 The disposal includes, inter alia, (i) the sale of the shareholding of the then FWDPT, the trustee of certain MPF Schemes (i.e., the then FWD MPF Master Trust Basic Scheme and FWD MPF Master Trust Comprehensive Scheme, which were renamed respectively as Sun Life MPF Basic Scheme and Sun Life MPF Comprehensive Scheme), to Sun Life (and its nominees); and (ii) the transfer from FWD to Sun Life the Class G Policies underlying the MPF Schemes and ORSO Schemes. The sale of the then FWDPT had been completed on the first completion date, 3 October 2017, and the name of FWDPT was subsequently changed to SLPT.
- 2.11 The transfer of the Business is therefore part of the transaction contemplated under the Implementation Agreement.

- 2.12 The purpose of this Scheme is to transfer the Business from FWD to Sun Life pursuant to (i) sections 24 and 25(1) of the Ordinance; and (ii) section 25 of the Act. Under the Implementation Agreement, in respect of the Transferring Policies, FWD Management Holdings Limited agreed to transfer to Sun Life (and/or its nominee(s)) cash and/or the legal and beneficial title in "eligible assets" with a "fair market value" equal to FWD's estimate of the class G required provisions (which shall include the provision for account balance, the provision for investment guarantee and the provision for the smoothing of investment returns) as at 12:01 a.m. (Hong Kong time) of the second completion date of the Implementation Agreement, in accordance with the terms of the Implementation Agreement.
- 2.13 It is proposed by FWD and Sun Life that applications shall be made to the Hong Kong Court and the Bermuda Court under section 24 of the Ordinance and section 25 of the Act, respectively, such that the Business shall be transferred from FWD to Sun Life in accordance with the terms of this Scheme and subject to the Hong Kong Order made pursuant to sections 24 and section 25(1) of the Ordinance and the Bermuda Order made pursuant to section 25 of the Act.
- 2.14 The transfer contemplated under this Scheme will not proceed unless this Scheme is sanctioned by the Hong Kong Order and the Bermuda Order.

C. THE TRANSFER PROVISIONS

3. TRANSFER OF ASSETS

- 3.1 On and with effect from the Transfer Date, the Transferring Assets shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof.
- 3.2 On and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof.
- 3.3 If:
- (1) any property or asset of FWD, which would otherwise fall within the definition of Transferring Assets, is not, or is not capable of being, immediately transferred to and effectively vested in Sun Life on the Transfer Date by the Hong Kong Order and the Bermuda Order by reason of:
 - (i) such property or asset being a Residual Asset; or
 - (ii) the transfer of such property or asset being outside the jurisdiction of the Hong Kong Court or the Bermuda Court; or
 - (iii) for any other reason; or
 - (2) the transfer of any property or asset which falls within the definition of Transferring Assets but which is situated outside the jurisdiction of the Hong Kong Court or the Bermuda Court and is not recognised by the laws of the jurisdiction in which such property or asset is situated,

FWD shall, on and with effect from the Transfer Date, hold any property or asset referred to in sub-paragraphs (1) or (2) above, as trustee and in trust for Sun Life absolutely and shall be

subject to Sun Life's directions in respect thereof until the relevant property or asset is transferred to or otherwise vested in Sun Life or is disposed of (whereupon FWD shall account to Sun Life for the proceeds of sale thereof), and Sun Life shall have authority to act as the attorney of FWD in respect of such property or asset for all such purposes.

3.4 Sun Life shall accept without investigation or requisition such title as FWD shall have at the Transfer Date to each Transferring Asset and at each Subsequent Transfer Date to the Residual Asset then transferred.

3.5 FWD and Sun Life 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, Sun Life of any Transferring Asset or Residual Asset.

4. TRANSFER OF LIABILITIES

4.1 On and with effect from the Transfer Date, each Transferring Liability shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume, any liability in respect of such Transferring Liability.

4.2 On and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume any liability in respect of such Residual Liability.

4.3 If:

- (1) any obligation or liability of FWD which would otherwise fall within the definition of Transferring Liabilities is not, or is not capable of being, immediately transferred and effectively vested in Sun Life on the Transfer Date by the Hong Kong Order and the Bermuda Order by reason of:
 - (i) such obligation or liability being a Residual Liability; or
 - (ii) the transfer of such obligation or liability being outside the jurisdiction of the Hong Kong Court or the Bermuda Court; or
 - (iii) for any other reason; or
- (2) the transfer of any obligation or liability which falls within the definition of Transferring Liabilities but is governed by the law of a jurisdiction other than Hong Kong or Bermuda and is not recognised by the laws of the jurisdiction which govern such obligation or liability,

then Sun Life shall from and after the Transfer Date perform any such obligation or satisfy any such liability as referred to in sub-paragraphs (1) or (2) above on behalf of FWD, or failing that, indemnify FWD against such obligation and liability.

4.4 FWD and Sun Life 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, Sun Life of any Transferring Liability or any Residual Liability.

5. TRANSFER OF TRANSFERRING POLICIES

- 5.1 On and with effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD under, or by virtue of, the Transferring Policies. The Transferring Policies shall on and with effect from the Transfer Date form part of Sun Life's long term business carried on in or from Hong Kong.
- 5.2 On and with effect from the Transfer Date, all rights and powers against FWD available to the policy holder of every Transferring Policy shall cease and shall be substituted by the same rights and powers against Sun Life. On the Transfer Date, all Statutory Records and other information relating to the policy holders, 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 (Chapter 486 of the Laws of Hong Kong)) of such policy holders, insureds, beneficiaries, assignees and other persons, which is held by FWD shall be transferred to Sun Life, and Sun Life shall have the same rights and powers in holding and using (and transferring) such information as those of FWD prior to the Transfer Date.
- 5.3 In respect of the Transferring Policies under which premiums continue to be payable, the policy holders of the Transferring Policies shall account to Sun Life for any further premiums as and when they become due. Sun Life 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 FWD prior to the transfer.
- 5.4 Sun Life 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 Sun Life and not FWD had issued the Transferring Policies.
- 5.5 All terms and conditions of the Transferring Policies (including application forms, illustrative documents, principal brochures, riders, schedules and declarations) shall remain unchanged save that, on and with effect from the Transfer Date, all references in the Transferring Policies to FWD, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents shall be read as reference to Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be); and any reference to "FWD" in the names of the Transferring Policies will be changed to "Sun Life". In particular, but without limitation, all rights and duties exercisable or expressed to be exercisable or responsibilities to be performed by FWD, 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 Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be).

6. CONTINUATION OF LEGAL PROCEEDINGS

- 6.1 By virtue of the Hong Kong Order and the Bermuda Order, on and with effect from the Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Transferring Policies, Transferring Assets or Transferring Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

- 6.2 By virtue of the Hong Kong Order and the Bermuda Order, on and with effect from the applicable Subsequent Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Residual Assets or Residual Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

D. THE NEW INSURANCE FUNDS BY SUN LIFE

7. THE NEW SUN LIFE INSURANCE FUNDS

Establishment of New Sun Life Insurance Funds

- 7.1 Effective from the Transfer Date, Sun Life shall establish three new sub-funds under the Class G Fund, namely New MPF Sub-Fund (Class G), New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G). They shall be maintained by Sun Life as separate sub-accounts under the Sun Life Class G Fund.

Allocation of Policies, Assets and Liabilities

- 7.2 On and with effect from the Transfer Date, all Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); and all Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).
- 7.3 On and with effect from the Transfer Date, all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).
- 7.4 Each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G); and each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New ORSO Sub-Funds (Class G).
- 7.5 All beneficial interest in any property, assets or investments held on trust by FWD for Sun Life pursuant to paragraph 3.3 above shall be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be) to which such property, assets or investments would have been allocated had it constituted a Transferring Asset.
- 7.6 On and with effect from the Transfer Date, all Transferring Liabilities of FWD which are attributable to the Transferring Policies shall be allocated to and become part of the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be).
- 7.7 Each Residual Liability of FWD which is attributable to the Transferring Policies shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be).

- 7.8 All liabilities which are required to be satisfied by Sun Life pursuant to paragraph 4.3 above shall be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be) to which such liabilities would have been allocated had it constituted a Transferring Liability.

E. MISCELLANEOUS PROVISIONS

8. PREMIUMS AND MANDATES

- 8.1 All premiums, loan repayments (if any, and interest thereon) and other amounts received or receivable by FWD in respect of any of the Transferring Policies on or after the Transfer Date shall be payable to Sun Life after the Transfer Date.
- 8.2 Sun Life shall be irrevocably authorized to endorse for payment any cheques, drafts, orders, postal orders or other instruments payable to, or to the order of, FWD and received by Sun Life in respect of premiums paid or loan repayments (if any) under the Transferring Policies on or after the Transfer Date.
- 8.3 Sun Life shall have the sole responsibility for billing and collecting premiums and paying all applicable taxes in respect of premiums received under the Transferring Policies on or after the Transfer Date.
- 8.4 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 FWD 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 Sun Life.

9. COSTS

FWD and Sun Life shall, out of their respective shareholders' funds, pay in equal share all costs in relation to the preparation of this Scheme and of its presentation to the Hong Kong Court and the Bermuda Court respectively for sanction and all other professional fees related thereto. None of such costs shall be borne by the funds maintained by FWD or Sun Life pursuant to the Ordinance in respect of their respective long term business, the Transferring Policies or other policies of FWD or Sun Life, or the policy holders thereof.

10. TRANSFER DATE

- 10.1 This Scheme shall become effective at 12:01 a.m. hours (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the Hong Kong Order and the Bermuda Order are granted, in each case sanctioning this Scheme. Subject to the grants of the Hong Kong Order and Bermuda Order, it is expected that the Scheme will take effect on [1 December 2020] but it may be subject to change.
- 10.2 Unless this Scheme shall become effective on or before 90 days after the later of the dates on which the Hong Kong Order and the Bermuda Order are granted, or such later date and/or time, if any, as FWD and Sun Life may decide and the Hong Kong Court and the Bermuda Court may allow, it shall lapse.

11. MODIFICATION

- 11.1 Subject to paragraph 11.3, FWD and Sun Life may apply to the Hong Kong Court and the Bermuda Court for consent to modify, vary or amend the terms of this Scheme, provided that:

- (a) the proposed modification, variation or amendment has been approved by the respective Appointed Actuaries and board of directors of both FWD and Sun Life;
 - (b) the Insurance Authority and the BMA have been notified of, and have the right to be heard at any hearing of the court at which such application is considered. In the case of the Insurance Authority, 3 months' prior written notice shall be given; and
 - (c) such application shall be accompanied by a report from an independent actuary to the effect that in his opinion, the proposed modification, variation or amendment will not materially and adversely affect the reasonable benefit expectations of, the financial security of or the level of service to the policy holders of the Transferring Policies, the policy holders of the non-transferring policies of FWD, or the existing policy holders of Sun Life.
- 11.2 Subject to paragraph 11.3, the terms of this Scheme shall be modified, varied or amended in accordance with such sanction as may be given by the Hong Kong Court and the Bermuda Court under paragraph 11.1.
- 11.3 The sanction of the Hong Kong Court and the Bermuda Court shall not be required in relation to:
 - (a) modification(s), variation(s) or amendment(s) to correct manifest error(s) of this Scheme; or
 - (b) when the modification(s), variation(s) or amendment(s) is/are reasonably considered by FWD and Sun Life to be necessary to ensure that the provisions of this Scheme operate in the intended manner where there is a change in the relevant laws or regulations;

provided that the Insurance Authority and the BMA have been notified of the same and has indicated that they do not object thereto.

12. GOVERNING LAW

This Scheme shall be governed by the laws of Hong Kong subject to any procedural issues in connection with the Petition under section 25 of the Act being governed by Bermuda law.

The Schedule

The Transferring Policies as of 31 December 2019

List of Class G Policies – MPF Schemes

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

List of Class G Policies – ORSO Schemes

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan
10	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	11000207	27-Jun-95	FWD Multi-Funding Provident Plan
11	EL Grande Holdings Limited Provident Fund Scheme	15000932	12-May-98	FWD Multi-Funding Provident Plan
12	Fatti Components Limited Employees' Retirement Scheme	11000031	25-May-95	FWD Capital Guaranteed Plan
13	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	15000214	07-Feb-06	FWD Multi-Funding Provident Plan
14	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan
15	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan
16	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan
17	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan
18	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan
19	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan
20	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan
21	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan
22	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan
23	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
24	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan
25	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan
26	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan
27	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan
28	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan
29	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan
30	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan
31	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan
32	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan
33	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan
34	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan
35	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan
36	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan
37	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan
38	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
39	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan
40	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan
41	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan
42	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi-Funding Provident Plan
43	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan
44	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan
45	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan
46	St. James' Settlement Provident Fund Scheme (1)	11000117	07-Sep-95	FWD Capital Guaranteed Plan
47	Sunny Creations Limited Provident Fund Scheme	11000354	25-May-95	FWD Capital Guaranteed Plan
48	Technik Industrial Co. Ltd. Provident Fund Scheme	11000299	28-Apr-95	FWD Multi-Funding Provident Plan
49	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	15001034	12-Jul-11	FWD Multi-Funding Provident Plan
50	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan
51	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan
52	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan
53	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
54	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan
55	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan
56	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan
57	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan
58	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan
59	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan
60	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan
61	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan
62	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan
63	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan
64	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan
65	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	81000102 3	24-Oct-11	FWD Capital Guaranteed Plan
66	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
67	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)
68	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)

ANNEX B
APPROVED ACTUARY'S REPORT

**Report of the Independent
Actuary on the transfer of certain
Class G insurance policies
underlying the FWD MPF and
ORSO business from FWD Life
Insurance Company (Bermuda)
Limited to Sun Life Hong Kong
Limited**

Prepared for:

**FWD Life Insurance Company (Bermuda) Limited
Sun Life Hong Kong Limited**

Prepared by:

**Clement Bonnet
Fellow of the French Institute of Actuaries**

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Independent Actuary's Statement of Opinion

I, Clement Bonnet, am a Principal and Consulting Actuary of Milliman Limited ("Milliman"). I am a Fellow of the French Institute of Actuaries, and a Fellow member of the Actuarial Society of Hong Kong. I have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41, and as the Approved Actuary ("Approved Actuary") pursuant to Section 25 of the Bermuda Insurance Act 1978 ("Act"), to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of certain Class G long term policies underlying the mandatory provident funds ("MPF") business and occupational retirement ("ORSO") business from FWD Life Insurance Company (Bermuda) Limited ("FWD") to Sun Life Hong Kong Limited ("Sun Life"). Throughout this report FWD and Sun Life are collectively referred to as the "Parties" and the trustees or employers taking out these Class G insurance policies (a list of which is set out in Appendix G, the "Transferring Policies") are collectively referred to herein as the "Transferring Policy holders".

The rationale behind this transfer is to allow Sun Life to acquire the pension business from FWD, expanding Sun Life's presence in Asian Wealth Management space in a low capital and fee-based business, and adding scale to Sun Life existing pension business resulting in a reduction of expenses per member.

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 Parties.

The scope of my review and opinions are confined to the effects of the Scheme on the long term policy holders of the Parties. In particular, I have formed my view by considering:

- the effect of the Scheme on the financial security of the contractual benefits of the long term policy holders of FWD and Sun Life;
- the effect of the Scheme on the reasonable benefit expectations of the long term policy holders of FWD and Sun Life;
- the effect of the Scheme on the level of service to the long term policy holders of FWD and Sun Life; and
- the adequacy of safeguards in the Scheme to ensure that the Scheme operates as presented.

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

In my opinion,

The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.

The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.

The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.

I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Clement Bonnet
Independent Actuary
26 June 2019

C. Bonnet

Section 1 Introduction

The Independent Actuary

- 1.1. When an application is made to the High Court of the Hong Kong Special Administrative Region, Court of First Instance (the "Hong Kong Court") for an order to sanction the transfer of long term insurance business from one insurer to another, it must be accompanied by a report on the terms of the Scheme by an independent actuary in conformance to Section 24 of the Insurance Ordinance, Chapter 41 of the Laws of Hong Kong (the "Ordinance").
- 1.2. Similarly, when an application is made to the Supreme Court of Bermuda (the "Bermuda Court") for an order to sanction a transfer of long term insurance business, it must be accompanied by a report on the terms of the Scheme by an Approved Actuary in conformance to Section 25 of the Bermuda Insurance Act 1978.
- 1.3. I have been appointed by both FWD Life Insurance Company (Bermuda) Limited ("FWD") and Sun Life Hong Kong Limited ("Sun Life") as the Independent Actuary in connection with the proposed scheme of transfer (the "Scheme") of certain long term pension business from FWD to Sun Life. The long term business involved is referred to as the "Transferring Business" and comprises the Class G insurance policies, excluding the five internal retirement plans for FWD agents and staff which will remain with FWD (namely: Long Service Incentive Scheme ("LSIS"), Long Service Bonus Scheme ("LSBS"), VNB Fund Scheme, Victory Fund Scheme and FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, collectively called "FWD Retained ORSO Business"), written by FWD before the Transfer Date. The Class G policies are currently issued to trustees or employers of mandatory provident funds ("MPF") schemes and occupational retirement ("ORSO") schemes. The trustees or employers taking out these Class G insurance policies are collectively referred to herein as the "Transferring Policy holders". FWD and Sun Life are collectively referred to herein as the "Parties".
- 1.4. My appointment as the Independent Actuary has been noted by the Hong Kong Insurance Authority ("HK IA") and the Bermuda Monetary Authority ("BMA").

Scope of my report

- 1.5. This report considers the effects of the Scheme on the long term policy holders of FWD and Sun Life. It does not assess the impact of the Scheme on the shareholders of either company.
- 1.6. I have considered the Scheme as presented to me and have not considered other possible alternative schemes of transfer.
- 1.7. In reporting on the Scheme I owe a duty to the Hong Kong Court and the Bermuda Court to help them 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.
- 1.8. In preparing the report, I consulted the HK IA on the required contents and incorporated suggestions from the HK IA as appropriate.

- 1.9. My report has been prepared in accordance with the approach and expectations in the section 2 paragraphs 31 to 41 of the Prudential Regulation Authority ("PRA") Handbook, as set out in "The Prudential Regulation Authority's approach to insurance business transfers" dated April 2015 (the "PRA Statement of Policy"), and enclosed as Appendix C to this report. I have also referred to Chapter 18 of the Supervision Manual ("SUP 18") contained in the Financial Conduct Authority ("FCA") Handbook. Subsections SUP18.2.31G to SUP18.2.41G, which provide guidelines on the form of the independent expert scheme report required in the UK, are enclosed as Appendix D to this report. In addition, I have had regard to Guidance Note 15 ("GN 15") issued by the Institute of Actuaries which is enclosed as Appendix E, which was withdrawn in the UK and replaced by the aforementioned section of the FCA Handbook. GN15 is no longer in-force but this is taken as reference as the courts in Hong Kong have taken this guidance note into account in previous Section 24 portfolio transfers. I have also used Section 25 of the Bermuda Insurance Act 1978 as a reference basis.
- 1.10. In May 2018, the FCA published final guidance on its approach to the review of Part VII insurance business transfers ("FG18/4: The FCA's approach to the review of Part VII insurance business transfers"). I have had regard to this guidance when preparing this report.
- 1.11. I have been provided with free access to the information that I requested as necessary to conduct my work. The key documents that have been made available to me include the Scheme, the Reports of the Appointed Actuaries of the Parties (the "Appointed Actuaries") on the Scheme, statutory reserve reports, crediting rates and investment policies, financial projections before and after the Scheme implementation and information related to management of the Parties. Appendix B of this report shows the main items of information and documents provided. In addition, I have also been given unrestricted access to and held discussions with various representatives of the Parties.
- 1.12. I have considered the following areas when forming my opinion in this report:
- the effect of the Scheme on the financial security of the contractual benefits of the long term policy holders of FWD and Sun Life;
 - the effect of the Scheme on the reasonable benefit expectations of the long term policy holders of FWD and Sun Life;
 - the effect of the Scheme on the level of service to the long term policy holders of FWD and Sun Life; and
 - the adequacy of safeguards in the Scheme to ensure that the Scheme operates as presented.
- 1.13. The report should be read together with the full terms of the Scheme.

Qualifications and Disclosures

- 1.14. I am a Fellow member of the Actuarial Society of Hong Kong and a Fellow member of the French Institute of Actuaries.

- 1.15. I am a Principal and Consulting Actuary of Milliman Limited, residing of 3901-02, AIA Tower, 183 Electric Road, North Point, Hong Kong ("Milliman"). I have been based in Hong Kong since 2012. I consider my knowledge and experience, which includes the familiarity with the types of long term business written by the Parties involved, as well as my experience with previous Section 24 portfolio transfers, to be suitable and relevant in accepting the appointment as the Independent Actuary for the Scheme.
- 1.16. I am not a shareholder in FWD Limited or any of its subsidiaries. I hold no individual life insurance policies with any of the companies within FWD Group nor am I a member of any FWD Group insurance scheme. I have no other financial interest in FWD Limited. I am not a shareholder in Sun Life Financial Inc. or any of its subsidiaries. I hold no individual life insurance policies with any of the companies within Sun Life Financial Inc. nor am I a member of any Sun Life Financial Inc. insurance scheme. I have no other financial interest in Sun Life Financial Inc.. Moreover, my compensation related to this appointment is independent of the outcome of the Scheme.

Reliances

- 1.17. In preparing my report, I have had access to documentary evidence provided by the Parties, the key elements of which are listed in Appendix B. I have also relied on the Appointed Actuaries and other members of the senior management team of FWD and Sun Life for information about the operations of FWD and Sun Life. In this report I have specifically attributed certain statements to such persons, and I have relied upon the accuracy of those (and other statements) made to me.
- 1.18. In coming to my conclusions, I have relied upon the accuracy of the information which has been provided to me in written or oral form, without independent verification. However, much of the key information has been subject to audit without any audit issue (e.g. balance sheet and statutory reserves, including the entire process from data inputs to model to the production of final results) or other external scrutiny, and I have had the opportunity to challenge any apparent inconsistencies in the information provided.
- 1.19. No attempt has been taken to independently review the calculations provided to me and I explicitly rely on the Appointed Actuaries and the Parties that all the calculations used in relation to the Scheme are appropriate and accurate as presented.
- 1.20. I have received a copy of legal advice provided to FWD management in respect of certain matters and have discussed that advice with FWD. I am not qualified to express opinions on matters of a legal nature. I have therefore made specific reference to such advice where appropriate, and I have relied upon that advice.

Limitations

- 1.21. This report has been prepared on the basis as set out in the report and its appendices.
- 1.22. This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. I have provided a summary of my report (the "Summary Report") for

inclusion in the policy holder circular and, other than this, no summary of my report may be made without my express consent.

- 1.23. This report has been prepared by Milliman on an agreed basis for the Parties in the context of the Scheme and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of my report for a purpose for which it was not intended nor for the results of any misunderstanding by any user of any aspect of the report.
- 1.24. Other than as set out below, this report is not meant for use by any third party to do or omit to do anything and no third party should place any reliance on the report for that reason. This report and the opinions and conclusions contained herein are for the internal use of the management of the Parties, their professional advisors, their shareholders, their policy holders, regulators, and in court. With the exception of the limited distribution and disclosure of the report specified in paragraph 1.26 and 1.27, the report and any written or oral information or advice provided by me or Milliman must not be reproduced, distributed or communicated in whole or in part to any other person, or be relied upon by any other person except with the written consent of me and Milliman.
- 1.25. If the Parties wish to release a copy of the report to third parties or advisors, except as described in section 10 of this report, these parties must sign a disclaimer and release letter in the form approved by Milliman setting out the terms under which the information is provided and acknowledging that neither Milliman nor I assume any responsibility, liability or duty of care to them. If the Parties wish to disclose extracts from the report in documents, Milliman and I need to give prior written consent to the proposed wording.
- 1.26. In accordance with Section 24 of the Ordinance, in respect of a sanction of the Hong Kong Court for the transfer of long term business, the exceptions referred to above include:
- a copy of the report will be provided to the HK IA;
 - a copy of the report will be available for inspection at the premises in Hong Kong of the Parties concerned for a period of not less than 21 days subsequent publishing a notice in the Government of the Hong Kong Special Administrative Region Gazette and in an approved English language newspaper and an approved Chinese language newspaper in Hong Kong in connection with the Scheme; and
 - a copy of the report will be made available to any person asking for one, provided that the request is made prior to an order for sanctioning the Scheme.
- A copy of the report will be available from the corporate website of both Sun Life and FWD.
- 1.27. In accordance with Section 25 of the Act, in respect of a sanction of the Bermuda Court for the transfer of long term business, the exceptions referred to above include:
- a copy of the report will be provided to the BMA;
 - a copy of the report will be available for inspection at the premises of the Parties concerned for a period of not less than 21 days subsequent publishing a notice in the Royal Gazette in Bermuda in connection with the Scheme; and

a copy of the report will be made available to any person asking for one, provided that the request is made prior to an order for sanctioning the Scheme.

- 1.28. The use of Milliman's name, trademarks or service marks, or reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, websites or business presentations is not authorised without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.
- 1.29. This report was based on data available to me and Milliman at, or prior to 26 June 2019, and takes no account of developments after that date. Neither I nor Milliman is under any obligation to update or correct inaccuracies which may become apparent in the report.
- 1.30. This report does not provide financial or other advice to individual policy holders.

Limits of liability and legal jurisdiction

- 1.31. This report is subject to the terms and limitations, including limitation of liability and legal jurisdiction, set out in the Engagement Letter.

Section 2 The Parties to the Scheme

FWD

- 2.1. FWD Life Insurance Company (Bermuda) Limited ("FWD") is a wholly-owned subsidiary of FWD Limited Pacific Century Group acquired the company from ING Groep N.V. and renamed it to FWD Life Insurance Company (Bermuda) Limited in 2013.
- 2.2. FWD is licensed as a Class E and Class 3 insurance company under the Bermuda Insurance Act 1978, with its principal activity being to carry on long term insurance and retirement business.
- 2.3. FWD is currently authorised to underwrite a variety of long term insurance business in Hong Kong, including Classes A (Life and Annuity), C (Linked long term), D (Permanent health), G (Retirement Scheme management category I) and I (Retirement Scheme management category III), in Part 2 of the Schedule 1 to the Ordinance.
- 2.4. As at 31 December 2018, 257.2 million ordinary shares and 246,500 preference shares were issued with total share capital at US\$ 503,700,000.
- 2.5. Based on the audited accounts for the year ended 2018, under the Hong Kong Financial Reporting Standard basis ("HKFRS"), FWD had assets of HK\$96,796 million and total liabilities of HK\$90,348 million. Profit for the year was HK\$1,812 million compared to a loss of HK\$400 million in 2017.
- 2.6. For Hong Kong tax purpose, FWD has elected to be assessed on a profit tax basis for all lines of business, including Class G business.

Sun Life

- 2.7. Sun Life in this report refers to Sun Life Hong Kong Limited. It is a wholly owned subsidiary of Sun Life Financial of Canada, following the acquisition from Commonwealth Bank of Australia in October 2005. Sun Life then acquired the long term business from Sun Life Financial (Hong Kong) Limited on 1 October 2006.
- 2.8. Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life was authorized by the HK IA to transact long term business in or from Hong Kong as at 15 April 1987.
- 2.9. As at 31 December 2018, Sun Life had share capital of HK\$3,527 million.

- 2.10. Sun Life is currently authorised to underwrite various long term insurance businesses in Hong Kong, including Classes A (Life and Annuity, with effect from 15 April 1987), C (Linked long term, with effect from 7 November 2000), D (Permanent health, with effect from 15 April 1987), G (Retirement Scheme management category I, with effect from 31 May 1995), H (Retirement Scheme management category II, with effect from 31 May 1995) and I (Retirement Scheme management category III, with effect from 31 May 1995), as set out in Part 2 of the Schedule 1 to the Ordinance.
- 2.11. Based on the audited accounts for the year ended 2018, under the HKFRS basis, Sun Life had assets of HK\$70,143 million and total liabilities of HK\$63,900 million. Profit for the year was HK\$274 million compared to a net profit of HK\$477 million in 2017.
- 2.12. For Hong Kong tax purpose, Sun Life has elected to be assessed on a tax basis for Class A and Class C lines of business where the assessable profits are deemed to be 5% of the premiums while the tax basis for Class G, Class H and Class I lines of business is directly based on profits.

Section 3 Existing Business and Fund Structures

FWD

Overview

- 3.1. FWD is authorised to carry on long term business in Hong Kong categorised as Class A (Life and Annuity), Class C (Linked long term), Class D (Permanent health), Class G (Retirement Scheme management category I) and Class I (Retirement Scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance.

Fund structure

- 3.2. FWD operates on the following fund structure:

FWD Long Term Fund;
FWD Retirement Fund; and
FWD Shareholders' Fund.

- 3.3. FWD writes and administers its current long term fund and retirement fund in considering different sub-funds as shown in the table below:

FWD fund structure before transfer	
Fund	Sub-fund
Long Term Fund	Traditional Life Fund (Class A)
	MaxFocus Fund I (Class A)
	MaxFocus Fund II (Class A)
	MaxFocus Fund III (Class A)
	MaxFocus Fund IV (Class A)
	Crisis XDefender Fund (Class A)
	Wealth ICON Fund (Class A)
	Universal Life Fund (Class A)
	Universal Life 2 Fund (Class A)
	Universal Life 2.1 Fund (Class A)
	Unit Linked Fund (Class C)
	Permanent Health Fund (Class D)
	Group Life Fund (Class I)
Retirement Fund	ORSO Non-Guaranteed Fund (Class G)
	ORSO Capital Guaranteed Fund (Class G)
	MPF Capital Guaranteed Portfolio (Class G)
Shareholders' Fund	

(*) Assets backing different classes of business are segregated. Assets within a same class of business are not segregated but separate accounts exist to track the performance separately.

Sub-fund	Scheme / Plan
ORSO Non-Guaranteed Fund	FWD Provident Fund Plan
	FWD Capital Guaranteed Plan
	FWD Split Fund Plan
	FWD Multi-Funding Provident Plan
	Independent schemes
ORSO Capital Guaranteed Fund	FWD Provident Fund Plan
	FWD Capital Guaranteed Plan
	FWD Split Fund Plan
	FWD Multi-Funding Provident Plan
	Independent schemes
MPF Capital Guaranteed Portfolio	MPF Basic Scheme
	MPF Comprehensive Scheme
	Sun Life MPF Master Trust (previously known as Schroder MPF Master Trust)

- 3.4. Under the MPF Capital Guaranteed Portfolio ("MPF CG"), FWD administers internally two MPF schemes, previously known as FWD MPF Master Trust Basic Scheme ("MPF Basic Scheme") and FWD MPF Master Trust Comprehensive Scheme ("MPF Comprehensive Scheme"). The roles of sponsor and trustee of the two internal MPF schemes have been transferred from FWD to Sun Life in 2017 while FWD remains the issuer of the insurance policy of MPF Capital Guaranteed portfolio. The names of MPF Basic Scheme and MPF Comprehensive Scheme have been changed to Sun Life MPF Basic Scheme and Sun Life MPF Comprehensive Scheme respectively. They are both open to new business and Sun Life Pension Trust Limited ("SLPT") acts as the trustee of these two MPF schemes (FWD Pension Trust Limited was acting as the Trustee before the transfer of ownership to SLPT in October 2017). MPF CG is also composed of an additional approved pooled investment fund, Sun Life MPF Master Trust (previously known as Schroder MPF Master Trust), which is managed externally.
- 3.5. Under the ORSO Capital Guaranteed Fund and ORSO Non-Guaranteed Fund (the policy holders having the option to choose between the two funds), as at 30 April 2019, FWD administers internally 74 policies issued under four ORSO schemes, namely FWD Provident Fund Plan, FWD Capital Guaranteed Plan, FWD Split Fund Plan and FWD Multi-Funding Provident Plan. Only FWD Multi-Funding Provident Plan is open to new business. SLPT is the trustee of all the ORSO schemes, except for the policies which have not applied for MPF exemption (as they do not need to have a trustee). Out of the 74 policies, there are four FWD Capital Guarantee Plan policies issued to independent schemes which are not administered by FWD but FWD acts as one of the investment managers. I have been informed by FWD that (i) FWD Provident Fund Plan is targeted to be terminated on 1 July 2019; and (ii) and all plans under FWD Split Fund Plan have been transferred to FWD Multi-Funding Provident Plan on 1 April 2019.
- 3.6. I have also been informed by FWD that, following the review of the classification of FWD Class G plans by an External Counsel, two internal agency plans (namely Long Service Bonus Scheme (LSB) and Lions Fund) which did not strictly meet the criteria of retirement scheme principles as laid out in Schedule 1 (Classes of Insurance Business) of the Ordinance have been transferred to FWD's Shareholders' Fund as at 31 December 2016.

These two plans are maintained separately as an internal arrangement with FWD's agents. Further details are provided in Appendix H.

Key statistics

- 3.7. The following table shows the details of the long term and retirement business of FWD as at 31 December 2018:

31 December 2018 Class	Number of policies	Amount of net liability (HK\$m)
A	343,180	52,598
C	19,242	5,285
D	2,850	284
I	268	5
Total	365,540	58,172

31 December 2018 Class	Number of participating schemes	Amount of net liability (HK\$m)
G – MPF	4,400 (*)	867
G – ORSO	81	2,306
Total	4,481	3,174

Note 1: the above statistics for Class G include MPF and ORSO businesses on the balance sheet of FWD as at 31 December 2018.

Note 2: Appendix G lists out the number of Class G policies (called participating schemes in the table above) issued by FWD as at the date mentioned in Appendix G, which is different of the date mentioned in the table above (31 December 2018).

(*) The number of participating schemes refers to the number of employers while Appendix G lists out of the number MPF Class G policies.

Figures may not be additive due to rounding.

Sun Life

Overview

- 3.8. Sun Life is a licensed insurer under the Ordinance and is authorised to carry on long-term business of Class A (Life and Annuity), Class C (Linked long term), Class D (Permanent Health), Class G (Retirement Scheme management category I), and Class H (Retirement Scheme management category II) and I (Retirement Scheme management category III), as set out in Part 2 of the Schedule 1 of the Ordinance.

Fund structure

3.9. The fund structure of Sun Life is shown in the following diagram:

Sun Life fund structure before transfer

	Closed Block Fund (Class A)
	CMG Par Fund (Class A)
	Open Par Fund (Class A)
	RB Par Fund (Class A)
	AoD Fund (Class A)
	Non-Par Fund (Class A)
	Universal Life Fund (Class A)
Existing Business Fund	Guardian Individual Trad (Class A)
	Guardian Individual Linked (Class C)
	VUL Fund (Class C)
	CMG Deposit Administration Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class H)
	Group Life and Medical (Class I)
	Guardian Group (Class I)

Shareholders' Fund

(*) the sub-funds above are physically segregated and managed separately.

3.10. Within Class G business, Sun Life administers and maintains two funds separately, namely CMG Deposit Administration (DA) and Guardian Ring-fenced Retirement Fund. Both of them are closed to new business. Within Class H, Sun Life has ORSO business. There is no guaranteed fund offered for MPF except for the newly acquired FWD and Sun Life MPF Capital Guaranteed Portfolio for which FWD currently acts as the guarantor and Sun Life acts as a sponsor.

Key statistics

3.11. The following table shows the details of the long term insurance business of Sun Life as at 31 December 2018:

31 December 2018 Class	Number of policies	Amount of net liability (HK\$m)
A - Non-ring fenced	358,940	39,826
A - Ring fenced	102	43
C - Non-ring fenced	60,457	10,251
C - Ring fenced	2	8

31 December 2018 Class	Number of policies	Amount of net liability (HK\$'m)
I - Non-ring fenced	1071	58
I - Ring fenced	2	18
Total	420,574	50,204

31 December 2018 Class	Number of participating schemes	Account balance (HK\$'m)	Amount of net liability (HK\$'m)
G - MPF - Non-ring fenced (*)	4,400 (**)	841	-
G - ORSO - Non ring-fenced (DA fund)	25	77	85
G - ORSO - Ring-fenced (DA fund)	63	897	1,009
H - ORSO - Ring fenced	4	644	644
Number of ORSO employer with both Class G and H Policies	(2)	-	-
MPF Class G Policies where FWD is the issuer of the insurance policies	(4,400)	(841)	-
Total	90	1,618	1,738

(*) Newly acquired MPF Capital Guaranteed Portfolio, where FWD remains as the issuer of the insurance policies.

(**) The number of participating schemes refers to the number of employers while Appendix G lists out the number MPF Class G policies.

Figures may not be additive due to rounding.

Section 4 The Scheme of Transfer

Purpose

- 4.1. The proposed transfer is described in the documents produced by the Parties as presented to the Hong Kong Court and the Bermuda Court.
- 4.2. The Scheme involves the transfer of the Class G policies underlying the guaranteed funds in respect of the MPF schemes and ORSO schemes from FWD to Sun Life, excluding FWD Retained ORSO Business which will remain with FWD.
- 4.3. The rationale behind this transfer is to allow Sun Life to acquire the pension business of FWD, expanding Sun Life's presence in Asian Wealth Management space in a low capital and fee-based business, and adding scale to Sun Life existing pension business resulting in a reduction of expenses per member.
- 4.4. The Scheme will take effect at 12:01a.m. hours (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the order of the Hong Kong Court is granted and the order of the Bermuda Court is granted, in each case sanctioning this Scheme. Subject to the grants of the order of the Hong Kong Court and the order of the Bermuda Court, it is expected that the Scheme will take effect on 1 December 2020 (the "Transfer Date"), but it may be subject to change.

The Transferring Business

- 4.5. On the Transfer Date, FWD will transfer all Class G policies under and in respect of the MPF schemes and ORSO schemes, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements, written by FWD before the Transfer Date, except the five internal ORSO retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"). The investment manager will be changed from FWD to Sun Life.
- 4.6. The MPF schemes are Sun Life MPF Basic Scheme, Sun Life MPF Comprehensive Scheme and Sun Life MPF Master Trust, and the Class G policies are approved pooled investment funds ("APIFs") under the MPF Capital Guaranteed Portfolio, which is a constituent fund under each MPF scheme. The roles of sponsor and trustee of Sun Life MPF Basic Scheme (formerly known as FWD MPF Master Trust Basic Scheme) and Sun Life MPF Comprehensive Scheme (formerly known as FWD MPF Master Trust Comprehensive Scheme) have been transferred from FWD to Sun Life in 2017 while FWD remains the issuer of the insurance policy of MPF Capital Guaranteed Portfolio.

- 4.7. As at 31 December 2018, the Class G policies under or in respect of the ORSO schemes are issued under the following 4 plans:
- FWD Capital Guaranteed Plan;
 - FWD Multi-Funding Provident Plan;
 - FWD Split Fund Plan;
 - FWD Provident Fund Plan.
- 4.8. There are in total 74 policies issued as at 30 April 2019. I have been informed by FWD that (i) FWD Provident Fund Plan is targeted to be terminated on 1 July 2019; and (ii) all plans under FWD Split Fund Plan have been transferred to FWD Multi-Funding Provident Plan on 1 April 2019.
- 4.9. FWD Retained ORSO Business as defined in paragraph 1.3 will remain with FWD after the Transfer Date.

Transferring liabilities

- 4.10. On and with effect from the Transfer Date:
- Sun Life will assume, in place of FWD, all of the transferring long term liabilities; and
 - the transferring long term policies will form part of Sun Life's long term business portfolio.
- 4.11. Transferring liabilities refer to all liabilities of FWD, excluding the FWD Retained ORSO Business, as at the Transfer Date attributable to the Class G Policy liabilities, being equal to the sum of:
- the account balance as adjusted to reflect policy holder payables and receivables on or around the Transfer Date;
 - the provision for investment guarantee in relation to the Class G policies made in accordance with the approach and methodology specified in paragraph 6.2 of Guideline 7 for investment guarantees, and calculated with FWD's methodology and assumptions as specified in the GL7 Report for the year ended 31 December 2018; and
 - any relevant smoothing provisions determined using FWD's methodology and assumptions.

- 4.12. The following table shows the details of the Class G long term business of FWD as at 31 December 2018.

Class G long term business of FWD			
31 December 2018 Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF	4,400 (*)	841	867
ORSO	81	2,049	2,306
Transferring ORSO Business	77	1,614	1,812
FWD Retained ORSO Business	4	435	494
Total	4,481	2,890	3,174

Note: Appendix G lists out the number of Class G policies (called participating schemes in the table above) issued by FWD as at the date mentioned in Appendix G, which is different of the date mentioned in the table above (31 December 2018).

() The number of participating schemes refers to the number of employers while Appendix G lists out the number MPF Class G policies.*

Figures may not be additive due to rounding.

- 4.13. As at 31 December 2018, the long term business comprised 4,400 MPF schemes and 81 ORSO schemes. The amount of net liability of Class G ORSO business was HK\$ 2,306 million while the amount of net liability of Class G MPF business was HK\$ 867 million.
- 4.14. The account balance of FWD Retained ORSO Business has reduced significantly from 31 December 2017 (HK\$ 719 million) to 31 December 2018 (HK\$ 435 million). This is mainly explained by the payment for Victory Fund Scheme of HK\$ 327 million to FWD Agents in April 2018.

Transferring assets

- 4.15. Transferring assets refer to all properties, assets or investments of FWD equal to the transferring liabilities as at the Transfer Date, which shall be transferred to Sun Life.
- 4.16. Under the Scheme, the long term business funds of Sun Life will be restructured to incorporate the Transferring Business of FWD. The subdivision of the funds and the allocation of assets and liabilities among the comprising funds are described in paragraph 4.17 below.

Sun Life Fund Structure under the Scheme

- 4.17. The following tables set out the proposed change in Sun Life fund structure as a result of the transfer:

Sun Life fund structure before transfer

	Closed Block Fund (Class A)
	CMG Par Fund (Class A)
	Open Par Fund (Class A)
	RB Par Fund (Class A)
	AoD Fund (Class A)
	Non-Par Fund (Class A)
	Universal Life Fund (Class A)
Existing Business Fund	Guardian Individual Trad (Class A)
	Guardian Individual Linked (Class C)
	VUL Fund (Class C)
	CMG Deposit Administration Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class H)
	Group Life and Medical (Class I)
	Guardian Group (Class I)
Shareholders' Fund	

Sun Life fund structure after transfer

	Closed Block Fund (Class A)
	CMG Par Fund (Class A)
	Open Par Fund (Class A)
	RB Par Fund (Class A)
	AoD Fund (Class A)
	Non-Par Fund (Class A)
	Universal Life Fund (Class A)
Existing Business Fund	Guardian Individual Trad (Class A)
	Guardian Individual Linked (Class C)
	VUL Fund (Class C)
	CMG DA Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class H)
	Group Life and Medical (Class I)
	Guardian Group (Class I)
Transferring Business	New ORSO Non-Guaranteed Sub-Fund (Class G)
	New ORSO Capital Guaranteed Sub-Fund (Class G)
	New MPF Sub-Fund (Class G)
Shareholders' Fund	

- 4.18. To incorporate the Transferring Business, Sun Life will establish three new segregated Class G sub-funds. These sub-funds will be maintained as separate sub-accounts under the Sun Life Class G Funds. Sun Life will continue to maintain existing Class G lines of business separately from the Transferring Business.
- 4.19. Total asset backing the Transferring Business including all assets backing the account balance, the provision for investment guarantee and any smoothing provision would be transferred from FWD to Sun Life, to cover all expected outgoes and maintain solvency for the Transferring Business. In addition, Sun Life Shareholders' Fund will continue to support the existing and Transferring Business in the event of a shortfall of assets.

FWD Fund Structure under the Scheme

- 4.20. Under the proposed Scheme, FWD will have no pension business in-force except for FWD Retained ORSO Business. Therefore, the fund structure of FWD will remain unchanged. The various long term sub-funds will not be affected. The following table sets out the fund structure after the transfer:

FWD fund structure after transfer	
Fund	Sub-fund
Long Term Fund	Traditional Life Fund (Class A)
	MaxFocus Fund I (Class A)
	MaxFocus Fund II (Class A)
	MaxFocus Fund III (Class A)
	MaxFocus Fund IV (Class A)
	Crisis XDefender Fund (Class A)
	Wealth ICON Fund (Class A)
	Universal Life Fund (Class A)
	Universal Life 2 Fund (Class A)
	Universal Life 2.1 Fund (Class A)
	Unit Linked Fund (Class C)
Retirement Fund	Permanent Health Fund (Class D)
	Group Life Fund (Class I)
Shareholders' Fund	ORSO Capital Guaranteed Fund (FWD staff & agents) (Class G)

Future operation

- 4.21. Sun Life has undertaken to fulfil all of the policy contract conditions should the business be transferred. This will include the responsibility for paying all benefits of claims, maturities, and other amounts arising from the Transferring Business including the cost of administration of customer transactions.
- 4.22. FWD and Sun Life entered into a 15-year exclusive distribution agreement allowing Sun Life to offer MPF and ORSO schemes through FWD's agency networks in Hong Kong.

Cost and expenses related to the Scheme

- 4.23. The costs associated with the Scheme are to be shared equally by FWD and Sun Life and will be paid out from the Parties' Shareholders' Funds. The costs include those in relation to the preparation of the Scheme and obtaining the sanction of the Hong Kong Court and the Bermuda Court, both incurred before and on the Transfer Date.

Section 5 Impact of the Proposed Transfer – Effect on Benefit Expectations of Transferring Policy holders

- 5.1. In this section I consider the major issues relating to the benefit expectations of the Transferring Policy holders. In forming my opinion on this aspect, I have considered the various matters addressed in the following paragraphs.

Considerations affecting benefit expectations of policy holders

- 5.2. Considerations affecting benefit expectations of retirement business include discretionary elements such as non-guaranteed crediting rates, fees and charges and the rights of the Transferring Policy holders.
- 5.3. For policies with discretionary components, I must also consider the likely effects of the Scheme on how such discretion will be exercised taking into account the current benefit expectations of policy holders. These policies include those with a combination of discretionary and guaranteed crediting rates such as Class G policies. I will elaborate further on the form of discretionary benefits paid to the policy holders of FWD later in this section.
- 5.4. In considering the likely effects of the Scheme on Transferring Policy holders' discretionary benefits prospects, I have considered the following areas:

The approach taken to determining the amounts of policy holder discretionary crediting rates subsequent to the Scheme implementation, and any differences compared with current practice.

The future governance procedures and safeguards, provided by Sun Life's shareholder, against a change of approach that could have an adverse effect on policies with discretionary benefit components.

The extent to which future investment strategy, and investment performance, of the assets backing the insurance policies may be affected by the Scheme.

The expenses attributable to policy holders as a result of the Scheme.

Existing discretionary benefits of the Transferring Business under FWD

FWD MPF Capital Guarantee Portfolio ("FWD MPF CG")

- 5.5. FWD MPF CG is a unitised fund with price equal to the net asset value. The net asset value increases based on the actual return less applicable administration fees, trustee fee and guarantee fee. FWD MPF CG guarantees that the capital will be preserved at the end of every 5-year period of continuous investment or over a shorter period if the member reaches the age of 65.

FWD ORSO Business

- 5.6. The discretionary benefits of FWD ORSO business are affected by a discretionary crediting rate which is subject to a minimum guaranteed rate. The same crediting rate philosophy is applied to both internal and external ORSO schemes offered by FWD. As of 31st December 2018, only minimum guaranteed crediting rate of 0% p.a. was applicable (refer to paragraph 5.9 for details).
- 5.7. Discretionary crediting rates are reviewed at least annually. The following four criteria are considered when recommending the crediting rate of the year:

(i) the actual net investment return

The total investment return achieved over the period net of expenses, tax and target investment spread is the starting point of the declared rate determination. It includes unrealised gains and losses on bond and equity. The target investment spread has been set at 0.95% since 2002 and is reviewed by FWD on a regular basis. For FWD Provident Fund Plan, the target investment spread is discretionary but subject to a maximum of 1.5% p.a.. For other plans, the target investment spread is fully discretionary.

(ii) the stability of return to policy holders

Declared rate can be lower or higher than the total net investment return after smoothing.

(iii) the long-term supportability of the crediting rate

The size of the fund surplus is a measure of sustainability of the portfolio and should fall within a reasonable range such that it is large enough to support GL7 reserving requirement. For each declaration, a stress test is performed to assess the sufficiency of the buffer after declaring the crediting rate. The declared rate is set such that the net surplus is at least positive. On the other hand, should the surplus be built up over time, the declared rate is increased to distribute the excess return to policy holders.

(iv) the competitiveness of the crediting rate

The comparison of the declared rate against competitors is also performed to ensure the recommendation is commercially viable.

Based on the latest ORSO crediting rate recommendation approved by FWD Hong Kong Asset-Liability Management Committee ("HK ALMCO") and Board dated 12 November 2018 and 6 December 2018 respectively, a crediting rate of 2.20% p.a. was declared from October 2017 to September 2018.

- 5.8. For ORSO schemes, an interim crediting rate is declared at the beginning of each year and is calculated as the discretionary crediting rate minus non-recurring items and up to 0.5% further adjustment subject to the Appointed Actuary. During extreme years, the Appointed Actuary can reduce the interim rate further by excluding exceptional non-recurring items. Effective from January 2019, 1.50% p.a. interim crediting rate was determined after considering the discretionary crediting rate, non-recurring items and 0.5% further adjustment suggested by the Appointed Actuary.
- 5.9. The minimum guaranteed rate can be different from one ORSO scheme to another as shown below:

FWD Provident Fund Plan

FWD Provident Fund Plan guarantees that during the first 10 years from the commencement date each contribution will earn an effective annual compounding interest rate not less than 5% from the dates the relevant contributions were received.

The 5% guarantee expired for this plan. This plan is closed to new business. FWD Provident Fund Plan is targeted to be terminated on 1 July 2019.

FWD Capital Guaranteed Plan

For the period of ten years from the commencement date, ORSO Capital Guaranteed Plan guarantees the crediting rate on total contribution will not be less than 0% p.a., less any withdrawals and any charges applicable credited to the account during that period.

This plan is closed to new business.

FWD Split Fund Plan

For the period of ten years from the commencement date, Split Fund Plan guarantees the crediting rate on total contribution will not be less than 0% p.a., less any withdrawals and any charges applicable credited to the account during that period.

This plan is closed to new business. All plans under FWD Split Fund Plan have been transferred to FWD Multi-Funding Provident Plan on 1 April 2019.

FWD Multi-Funding Provident Plan

For the period of ten years from the commencement date, Multi-Funding Plan guarantees the crediting rate on total contribution will not be less than 0% p.a., less any withdrawals and any charges applicable credited to the account during that period.

This plan is open to new business.

Historical declared crediting rate for FWD ORSO business

5.10. In the past, FWD has made several adjustments to the crediting rates for ORSO Capital Guaranteed Fund, as summarised below for recent years:

Bonus year	Interim crediting rate	Annual declared rate(*)
2002	5.00%	6.00%
2003	4.00%	7.00%
2004	4.00%	6.25%
2005	3.00%	6.25%
2006	3.00%	6.25%
2007	3.00%	7.25%
2008	3.00%	3.00%
2009	3.00%	5.25%
2010	3.25%	5.10%
2011	2.50%	3.60%
2012	2.00%	3.15%
2013	1.75%	3.05%
2014	1.75%	3.10%
2015	1.75%	2.20%
2016	1.50%	2.20%
2017	1.50%	2.40%
2018	1.50%	2.20%

(*) From October of previous year to September of current year

Discretionary benefits of the Transferring Business under Sun Life

5.11. Sun Life has undertaken to follow the current approach adopted by FWD to determine the crediting rate. Crediting rates will be reviewed at least annually, taking into account policy holders' reasonable expectations and the market environment. Sun Life's objective is to provide continuity to policy holders and to establish policies and practices similar to FWD to the extent practicable. Similar to FWD, Sun Life will review the methodology on a regular basis as a result of the normal review process. Further details are provided in the following paragraphs.

Discretionary crediting rate

- 5.12. Sun Life has undertaken to maintain the same minimum crediting rate for both ORSO schemes and MPF schemes.
- 5.13. For Class G business transferred from FWD, Sun Life will also adopt the same principle as FWD crediting rate methodology in prior years to the extent practicable. The crediting rate will be managed with respect to the policy holders' reasonable expectations and the net investment return of the period. In particular, in line with the approach used for their existing class G business, Sun Life will consider the following when determining the crediting rate:
- Expected portfolio return. It will be based on the composition of the asset portfolio and Sun Life's internal assumptions with regard to asset returns.
 - Target investment spread. It will be maintained at current level of 0.95% charged by FWD, but could be adjusted from time to time to reflect changing circumstances. While FWD has not made any adjustments to the target investment spread since 2002, FWD has broad right to vary the target investment spread. This right will continue with Sun Life and exists whether or not the Scheme proceeds.
 - Smoothing adjustment. It will be applied to minimise any unexpected volatility in crediting rate due to market fluctuations.
 - Policy holders' reasonable expectations.
- 5.14. As a result of the normal review process, FWD reviews crediting rates methodology periodically, a practice that will remain unchanged for Sun Life.
- 5.15. Expected portfolio returns will be different between FWD and Sun Life, due to different internal views with regard to future market performance, as well as differences in tactical asset allocation, strategic yield enhancement and asset liability matching. The table below compares FWD and Sun Life 2021 investment return assumptions used to produce the 2018 DST results. While the difference between FWD and Sun Life has widened between 31 December 2017 (13 bps) and 31 December 2018 (44bps) due to different internal views on long term investment return assumptions, the difference between the Parties is not expected to have a material impact on the long-term expected portfolio return. As a result, crediting rates following the Scheme are likely to be very similar to the past given the same economic conditions.

	Asset allocation (*)	FWD	Sun Life
5-year HKD corporate bond	78.30%	3.13%	2.24%
5-year USD corporate bond	8.70%	3.68%	3.60%
Equity	13.00%	8.00%	10.00%
Total	100%	3.81%	3.37%

(*) For the purpose of the above assessment, the asset allocation is based on the strategic asset allocation of the Deposit Administration Fund.

- 5.16. For ORSO interim crediting rate, Sun Life will adopt a similar management approach as FWD. Interim rate will be based on the declared crediting rate and further adjusted following the advice of the Appointed Actuary.

Asset allocation and investment policy of the Transferring Business under FWD

Overview

- 5.17. FWD has established a formal structure of investment policies, which is approved by FWD HK ALMCO, FWD Group Asset-Liability Management Committee ("Group ALMCO"), FWD Group Risk Management and Actuarial Committee ("GRMAC") and FWD Group Investment Committee ("GIC"). The investment policies consider the nature of liabilities and the assets supporting the liabilities.
- 5.18. The investment process is managed through HK ALMCO and the Chief Investment Officer ("CIO"). Investment guidelines for the internal assets are established and specified any investment requirements and restrictions.
- 5.19. FWD invests all internal managed ORSO Class G business in a separately managed Deposit Administration Fund, the investment objective for this fund being to achieve a long-term stable return above the guaranteed level. For the MPF CG portfolio, FWD is the investment manager but the assets are invested into another APIF managed by Schroder.

Deposit Administration Fund investment policy

- 5.20. At least two-thirds of the assets in this fund are invested in high quality worldwide fixed-income securities, with the remaining in cash (maximum 10%) and equities (maximum 33%). No more than 15% of total assets will be invested in restricted assets¹ as per FWD internal guidelines.
- 5.21. The actual asset allocation and strategic asset allocation for Deposit Administration Fund as at 31 December 2018 are as follows:

Asset Class	Actual asset allocation – 31 December 2018	Strategic asset allocation
Cash & Cash Equivalent	2%	0%
Fixed Income	85%	87%
HK Equities	13%	13%
Total	100%	100%

¹ Restricted assets are precious metals, commodities, real estates, warrants, future contracts, options or bonds rated below A/A2 and rights and other interest in any of these assets.

Asset allocation and investment policy of the Transferring Business under Sun Life

- 5.22. Investment policies for Sun Life's existing Class G funds, CMG DA and Guardian DA, are maintained and endorsed by Sun Life's ALM Committee ("Sun Life ALCO"), and approved by Sun Life Financial Asia ALM Committee (SLF Asia ALCO).
- 5.23. CMG DA assets are invested in fixed income instruments, with objectives to:
- Maximise long-term after-tax-risk-adjusted investment earnings;
 - Achieve a market competitive asset yields/spreads to support sustainable and competitive crediting rate.
- CMG DA is invested in high quality investment grade fixed income instruments. In case of credit rating downgrades, the percentage of below investment grade investments should not exceed 5% of the portfolio.
- 5.24. Guardian DA assets are invested in both public fixed income asset and equities, with objectives to:
- Achieve a sustainable yield;
 - Maintain policy holders' reasonable expectations by retaining a risk profile consistent with the investment policy.
- Guardian DA fixed income portfolio is only invested in high quality investment grade fixed income instruments. In case of credit rating downgrades, the percentage of below investment grade investments should not exceed 5% of the portfolio. A proportion of assets can also be invested in equity.
- 5.25. Investment policies and asset allocations for the transferring Class G funds will be maintained separately from Sun Life's existing Class G funds. In particular, I have been informed that there will not be significant change to the target asset allocations and the investment policies after the transfer. Similar to the governance process for existing Class G funds, investment policies for the Transferring Business will be maintained and endorsed by Sun Life ALCO and approved by SLF Asia ALCO. The target asset allocation for the ORSO business will be documented in the investment guideline of the Capital Guarantee Policy as per Sun Life existing practice for their existing business while the target asset allocation of the MPF CG Fund is already well documented in the MPF Explanatory Memorandum and will not change. The investment policies and asset allocations for the transferring funds will not be subject to material changes from FWD existing policies.

Overall comments on policy holder discretionary benefits philosophy after the transfer

- 5.26. I have considered the decisions in the future that may affect the level of discretionary benefits received by the Transferring Policy holders after Scheme implementation. Sun Life has confirmed that the company will follow the current crediting rate policy adopted by FWD and that there will not be any significant change to the existing principles and methods following implementation of the Scheme.

- 5.27. Crediting rates for Transferring Business will be determined separately and will reflect the effect of investment returns earned, less charges, subject to smoothing and to the guarantees inherent in the policies.
- 5.28. FWD reviews crediting rates methodology periodically, a practice that will remain unchanged for Sun Life.
- 5.29. I have been informed that the investment policy for the Transferring Business would be consistent with the investment policy of the funds before transfer.
- 5.30. In light of my review, it is my opinion that the current discretionary benefits setting principles and methodologies, and the required procedures for any changes to the existing approach, which Sun Life has undertaken to adopt after the transfer, provide sufficient safeguard that policy holders should expect to be treated in a similar manner before and after the transfer.
- 5.31. I have also considered the possible impact of the Scheme arising from any conflicting crediting rate policies. As the Transferring Policies will be managed in a separate fund from the existing policies of Sun Life immediately after the transfer, there will not be any conflicting crediting rate policies that need to be aligned after Scheme implementation. Therefore, I do not believe the Scheme presents an issue in relation to conflicting crediting rate policies.

Discretionary charges of the Transferring Business under FWD

- 5.32. FWD has broad rights to vary policy charges, as well as the right to impose any other charges for administering the policy. All scheme members and participating employers would be given written notice in advance according to policy provisions before any changes come into effect. These rights will continue with Sun Life and exist whether or not the Scheme proceeds.
- 5.33. I have been informed by Sun Life that the current charge level for the Transferring Business will not change materially as a result of the transfer. In particular no other fees would be applied to the Transferring Business. Charges will be disclosed in the Explanatory Memorandum for both MPF and ORSO policies.

Contractual guaranteed benefits provisions

- 5.34. According to the Scheme, Sun Life will commit to continue paying the guaranteed benefits of the Transferring Policy holders of FWD. The rights of these policy holders, as defined under their existing policy documents, will be the same before and after the transfer.

Costs and expenses in relation to the Scheme

- 5.35. The total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's shareholders' Funds. Sun Life 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 policy

holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, I have no reason to believe there will be any adverse impact on the Transferring Policy holders in this regard.

Tax implications

- 5.36. For Hong Kong tax purpose, FWD has elected to be assessed on a profit tax basis for all lines of business, including Class G business. As of 31 December 2018, FWD has accumulated tax loss carried forward. No tax balances will be transferred from FWD to Sun Life as a result of the transfer. In addition, the tax loss carried forward is not taken into account when determining the crediting rate.
- 5.37. Both FWD and Sun Life are using the Hong Kong profit tax rate of 16.5% to calculate the tax of the Class G businesses. Hence the tax regime applied to the Transferring Business will be unchanged following Scheme implementation.

Policy terms and conditions

- 5.38. I have been informed that there will be no change to the policy terms and conditions of Transferring Business as a result of Scheme implementation. I have no reason to believe there will be an adverse impact on the policy terms and conditions of policy holders due to the Scheme itself in this regard.

Impact of the split of FWD non-Class G plans

- 5.39. Two FWD non-Class G agency plans have been transferred to FWD's Shareholders' Fund as at 31 December 2016 following a review of the classification of FWD Class G plans. The split of these two non-Class G plans will not lead to any material adverse impact on the benefit expectations of the Transferring Policy holders as the two non-Class G agency plans were managed separately from the other remaining Class G plans.

Conclusion

- 5.40. In summary of my assessments above, I consider that the Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD

Section 6 Impact of The Proposed Transfer – Effect on Benefit Expectations of policy holders of the non-transferring policies of FWD and Existing Sun Life Policy holders

- 6.1. In this section, I consider the main issues relating to the benefit expectations of the policy holders of the non-transferring policies of FWD and the existing policy holders of Sun Life. In forming my opinion on this aspect, I have considered the various matters addressed in the following paragraphs.

Discretionary benefits

FWD non-Transferring Business

- 6.2. The principles and methods currently adopted by FWD in determining dividends for its in-force participating policies and discretionary interest rates on universal life policies will not be changed after the proposed transfer. FWD will retain the rights to review the dividend management philosophy for participating policies and the crediting rate mechanism for universal life policies and such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.
- 6.3. Before the transfer, the assets backing the participating and universal life policies of the remaining policy holders of FWD are managed separately from the assets underlying the Transferring Policies. The consideration of the transfer received by FWD will not be allocated to the participating and universal life policies of the remaining policy holders.
- 6.4. After the proposed transfer, part of the overhead expenses in relation to the retirement business (less than 3% of the total expenses based on a study of the pension related expenses incurred by FWD for the period 2014-2018) will not be fully eliminated and will be allocated to the remaining business. However, given that the increased expenses allocated to the remaining business should be in line with the increased effort into managing the business, FWD does not expect any material increase in unit cost. In addition, given the investment experience is the main factor affecting the dividend and crediting rate, there should not be any adverse impact on dividend payments and crediting rates.
- 6.5. For non-participating life policies and investment linked policies, FWD currently has broad rights to adjust premium and change fees or charges, which FWD may exercise in the future. These rights exist whether or not the Scheme proceeds. In determining the level of premium adjustment and non-guaranteed charges, the process and principles involved will not be changed as a result of the transfer.
- 6.6. For FWD Retained ORSO Business, FWD has no intention to change the investment strategy or the crediting rate philosophy as a result of the Transfer at Transfer date. Any future review or change will undergo the same review process as the one before the transfer.

However, due to the decrease in asset under management in 2018 and the potential increase in investment expense, FWD has intention to outsource the investment of FWD Retained ORSO Business, keeping the investment objectives unchanged and continuing offering the same guarantee. However no concrete timeline has been defined at the time this Report has been written. In any event, FWD will ensure compliance with the requirements of GL14 "Guideline on Outsourcing" and will go through the necessary regulatory approval process.

Sun Life existing business

- 6.7. Sun Life will maintain the Transferring Business separately from Sun Life's existing business, and in particular Sun Life's existing Class G business. For existing policy holders, contractual guaranteed benefits will remain unchanged. Also there should be no impact to the expenses for Sun Life's existing business.
- 6.8. In particular, the principles and methods currently adopted by Sun Life in determining dividends for its in-force participating policies and discretionary interest rates on universal life policies will not be changed after the proposed transfer. Sun Life will retain the rights to review the dividend management philosophy for participating policies and the crediting rate mechanism for universal life policies and such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.
- 6.9. For non-participating life policies and investment linked policies, Sun Life currently has broad rights to adjust premium and change fees or charges, which Sun Life may exercise in the future. These rights exist whether or not the Scheme proceeds. In determining the level of premium adjustment and non-guaranteed charges, the process and principles involved will not be changed as a result of the transfer.
- 6.10. No material change in the level of premium adjustment and/or non guaranteed charges is anticipated as a result of the transfer.

Asset allocation and investment policy

FWD non-Transferring Business

- 6.11. FWD has no intention to change the investment strategies currently adopted for the assets supporting the non-transferring policies after the proposed transfer. FWD will retain the rights to review the respective asset allocation and investment decisions set out in the investment policies and such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.
- 6.12. However, due to the decrease in asset under management and the potential increase in investment expense, FWD has intention to outsource the investment management of FWD

Retained ORSO Business, keeping the investment objectives unchanged and continuing offering the same guarantee.

Sun Life existing business

- 6.13. Investment policies for existing and transferring funds will be maintained separately. Investment policies for Sun Life's existing Class G funds are maintained and endorsed by Sun Life ALCO, and approved by SLF Asia ALCO. The investment policies for both existing and transferring funds will not be affected by the Transfer. Investment policies for Sun Life's existing Class G funds will not be affected by the proposed transfer and Sun Life will retain the rights to review the respective asset allocation and investment decisions set out in the investment policies of the existing business. Investment policies for other lines of business will also not be affected by the Transfer.

Policy terms and conditions

- 6.14. I have been informed by FWD and Sun Life that there will be no change to the policy terms and conditions of the non-Transferring and existing Business as a result of Scheme implementation. I have no reason to believe there will be an adverse impact on the policy terms and conditions of policy holders of the non-transferring policies of FWD and existing Sun Life policy holders due to Scheme implementation.

Costs and expenses in relation to the Scheme

- 6.15. The costs associated with the Scheme are to be shared by FWD and Sun Life equally and the total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's Shareholders' Funds. FWD and Sun Life have confirmed that the costs will be borne by shareholders and will not be passed on to policy holders. Thus 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 policy holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, there will be no material adverse impact on the long term policy holders of FWD and Sun Life in this regard.

Impact of the split of FWD non-Class G plans

- 6.16. Two FWD non-Class G agency plans have been transferred to FWD's Shareholders' Fund as at 31 December 2016. The split of these two non-Class G plans will not lead to any material adverse impact on the benefit expectations of the policy holders of the non-transferring policies of FWD as the two non-Class G agency plans were managed separately from the other remaining Class G plans. Also, it will not have any impact on the benefit expectations of the existing Sun Life policy holders.

Conclusion

- 6.17. In summary of my assessment above, I consider that the Scheme will have no material adverse effect on the reasonable benefit expectations of the policy holders of the non-transferring policies of FWD and of the existing policy holders of Sun Life.

Section 7 Impact of the Proposed Transfer – Effect on the Financial Security of Transferring Policy holders

- 7.1. In this section, I consider the main issues relating to the financial security of the Transferring Class G long term policy holders of FWD. In arriving at my opinion, I have considered the issues covered in the paragraphs below.

Considerations affecting financial security of policy holders

- 7.2. The security of the contractual benefits of policy holders can be measured by the excess assets in the long term business fund plus the net shareholder assets. It is affected by the conservatism of the reserving bases used and the capital and free assets of FWD, together with additional security provided by a life insurance company as a whole, and any potential support available from its shareholders.
- 7.3. I need to consider the solvency positions of the Parties prior to the transfer and the expected overall solvency position of Sun Life following implementation of the Scheme and its possible future development.

The provision of financial security

- 7.4. To protect the security of policy holders, insurance companies maintain three asset layers namely policy reserves, minimum solvency margin and surplus, with the first two layers required by legislation.

Policy reserves:

- Assets supporting the policy liabilities calculated according to the underlying contractual obligations. The valuation standards are prescribed by statutory rules.
- For Class G business, reserves are calculated and established with reference to the requirements of Guideline on the Reserve Provision for Class G of Long Term Business ("GL7") under the Ordinance issued by the HK IA. Under this Ordinance, an insurance company is required to have sufficient assets to meet the required provisions for all liabilities to the Class G policy holders, including the liabilities arising from the proper provision for investment guarantees which should cover most of the adverse situations with a 99% level of confidence.

Minimum solvency margin:

- Prescribed by statutory regulation, which includes assets required to fulfil the minimum solvency requirements. This serves as a margin relating to the risks of liabilities undertaken by the insurers.
- For long-term business written under Class G, there is no additional solvency margin required in Hong Kong on top of the existing GL7 reserve.

Surplus:

- Admissible net assets that are over and above the statutory minimum solvency margin.

- 7.5. In addition to these three asset layers, insurance companies are required to examine annually the financial position of the overall business under a number of adverse scenarios as prescribed by the Actuarial Guidance Note 7 ("AGN7") on Dynamic Solvency Testing ("DST") issued by the Actuarial Society of Hong Kong and required by the HK IA. The objective of this investigation is to identify the possible actions for dealing with any potential threats that may happen during the course of the business.

Policy reserves of the Transferring Business

- 7.6. Both FWD and Sun Life have been reporting under the Hong Kong regulatory regime, with the auditors certifying the financial statements prepared in accordance with the Ordinance and Appointed Actuary issuing Actuary's certificate as required by the Ordinance.

- 7.7. In accordance with the required valuation standards, FWD 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 requirements of Guideline on the Reserve Provision for Class G of Long Term Business under the Ordinance issued by the HK IA. In particular, FWD statutory reserve of Class G long term business is equal to the sum of:

accumulation of contributions paid into the fund, reduced by applicable expenses, fees or charges, and increased by interest credited in accordance with the applicable guaranteed rate or declared rate ("Account Balance");

provisions for investment guarantee ("GL7 reserves"); and

additional smoothing reserves.

- For ORSO business, the smoothing reserve is set equal to the difference between (i) the total assets and (ii) the sum of the Account Balance and the GL7 reserves. In other words, the remaining surplus above and on top of the sum of the Account Balance and GL7 reserve acts as a smoothing buffer to absorb certain market fluctuations.

- For MPF business, the smoothing reserve is held such that the sum of the GL7 reserve and smoothing reserve of the period is at least equal to the sum of the GL7 reserve and smoothing reserve of the previous period. This approach has been developed by FWD to ensure the stability of the total reserves excluding Account Balance for a rapidly growing MPF business. However this methodology may be subject to change should the economic environment be different in the future.

7.8. The Table below shows the statutory reserves of FWD Class G business from 31 December 2015 to 31 December 2018.

HK\$ million	31 December 2015			31 December 2016		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	677	16	10	758	21	5
ORSO	2,358	156	84	2,367	179	30
Total	3,035	172	93	3,125	200	34

HK\$ million	31 December 2017			31 December 2018		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	849	12	14	841	20	6
ORSO	2,563	205	128	2,049	167	91
Total	3,412	217	143	2,890	186	97

Note: Transferring assets are equal to the sum of the account balance, minimum GL7 reserve and smoothing reserve.

Figures may not be additive due to rounding.

- 7.9. I have not attempted to independently review the reserve calculations of the Parties. I explicitly rely on the Appointed Actuaries and management of both Parties that the reserves are appropriate with respect to regulatory compliance and accurate as presented. The Appointed Actuaries have both certified compliance with the Ordinance (CAP 41E-Insurance (Determination of Long Term Liabilities) Rules) and the reserves (including the entire process from data inputs to model to production of results) have been audited as part of the normal audit process.
- 7.10. After the transfer, stochastic valuation approach will be used by Sun Life to determine the GL7 reserves, which is the current approach adopted by FWD. More specifically, Sun Life will continue holding GL7 reserves for the Transferring Business that satisfies the Hong Kong regulatory standards, with reference to the requirements of the Guideline on the

Reserve Provision for Class G of Long Term Business. In particular, for each stochastic economic scenario, the shortfall between the market value of assets and the account balance is projected and discounted back to the valuation date and the minimum GL7 reserve is determined based on the 99th percentile of the empirical distribution of the present value of the shortfall under all stochastic scenarios. In addition Sun Life will continue holding a smoothing reserve for both ORSO and MPF using a methodology similar to FWD's.

- 7.11. At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business,

Similar to FWD approach before the Transfer, the minimum GL7 reserve for ORSO business will be split between FWD Retained ORSO Business (HK\$ 38 million as at 31 December 2018) and the Transferring ORSO Business (HK\$ 128 million as at 31 December 2018) based on the Account Balance. Even though historically the two types of business were managed in aggregate, this split was assessed to be reasonable given (i) economic assumptions are equal between the two blocks; (ii) average historical lapse experience is close between the two blocks (although recent 2018 experience has been more volatile and has shown differences) and the minimum GL7 is not materially sensitive to change in lapses; and (iii) a quantitative assessment was made in the past showing that the account value is an appropriate driver to split the GL7 reserve. (further details are provided in paragraph 8.6)

The entire ORSO smoothing reserve, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO Business as defined in paragraph 7.7, will be transferred to Sun Life, leading to a higher smoothing reserve for the Transferring Business after the Transfer.

- 7.12. The Table below shows the Statutory Reserve of the Transferring Business before and after the Transfer:

HK\$ million 31 December 2018	FWD – Before transfer			Sun Life – After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	841	20	6	841	20	6
Transferring ORSO Business	1,614	128	70	1,614	128	91
Total	2,455	148	76	2,455	148	97

Figures may not be additive due to rounding. Sun Life has committed not to reducing the total reserves held at transfer date as shown in the table above and to use a stochastic valuation approach that satisfies the Hong Kong regulatory standards going forward, as per FWD existing approach.

- 7.13. After the transfer, the procedures will also remain unchanged such that the reserving methods and valuation bases of the Transferring Business and the existing Sun Life business will be disclosed in the annual Actuary's report. Similar to FWD, any revised

valuation approach or bases, as a result of the normal review process, will continue to comply with local regulations and prescribing guidelines.

- 7.14. In conclusion, the reserves held after the transfer will be higher than the reserves held by FWD before the transfer. In addition, the methodology is not expected to be changed materially. Therefore it is my opinion that the changes in procedures in determining the valuation methodology before and after the transfer will not materially impact the financial security of the Transferring Policy holders of FWD.

Solvency position

- 7.15. There is no additional solvency margin required in Hong Kong for Class G business on top of the existing GL7 reserve.
- 7.16. Both FWD and Sun Life do not have a formal requirement for additional solvency margin above the GL7 reserve and smoothing reserve. Since GL7 reserves are calculated at the 99th percentile, which is a high confidence level, the GL7 requirement can be seen as an effective solvency requirement.

Overall financial position and shareholders' capital

- 7.17. In this section I consider in more detail the shareholders' capital of both FWD and Sun Life and the level of surplus in excess of the minimum requirement. In particular I have considered the free assets position, which is defined as the ratio of the surplus (net asset minus statutory solvency margin) divided by the total liabilities including statutory solvency margin. There is no regulatory requirement regarding free assets for Class G business in Hong Kong, but free assets represent an additional level of security.
- 7.18. From the audited accounts as at 31 December 2018, the valuation of FWD, under the Hong Kong statutory basis, included total liabilities of HK\$90,348 million. This was compared with total assets of HK\$96,796 million. When all assets are included (including the non-distributable surplus of HK\$400 million), there are HK\$6,847 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,569 million.

31 December 2018 - HKFRS	FWD
HK\$ million	Total
<u>Assets</u>	
Intangible Assets	-
Held-to-maturity financial assets	3,658
Available-for-sale financial assets	58,620
Financial assets at fair value through profit or loss	8,679
Loans and receivables	1,111
Deferred Tax Assets	38
Reinsurance Assets	12,940
Other Assets	10,856
Insurance receivables	895
Total Assets	96,796
<u>Liabilities</u>	
Insurance contract liabilities(*)	83,604
Investment contract liabilities	2,522
Liabilities held for sale	2,713
Other Liabilities	1,509
Total Liabilities	90,348
Net assets	6,448
Non-distributable surplus	400
Statutory net assets	6,847
Required Solvency margin	2,569
Surplus over Statutory Solvency Margin	4,278

Figures may not be additive due to rounding.

Exchange rate as at 31 December 2018 is US\$1 = HK\$7.832.

() Including non-distributable surplus of HK\$400m.*

- 7.19. Before transfer, as at 31 December 2018, the Hong Kong statutory valuation of Sun Life included total net liabilities of HK\$63,900 million. This was compared with total assets of HK\$70,143 million. When all assets are included there are HK\$6,244 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$1,985 million.

31 December 2018 - HKFRS		Sun Life - Before transfer	
HK\$ million	Class G	Shareholders Fund and Others	Total
<u>Assets</u>			
Intangible Assets	-	1,117	1,117
Plant & equipment	-	73	73
Investments in securities	1,252	62,378	63,630
Reinsurance assets	-	1,598	1,598
Interest in a subsidiary	-	318	318
Investments in associate	-	241	241
Loans and other receivables	-	945	945
Deferred Tax Asset	-	-	-
Deferred Origination Cost (DOC)	-	716	716
Amount due to Shareholders' Fund / Amount due from Long Term business	(43)	43	-
Other Assets	2	532	535
Bank balances & cash	7	963	970
Total Assets	1,219	68,924	70,143
<u>Liabilities</u>			
Insurance contract liabilities	1,094	47,992	49,086
Investment contract liabilities	-	4,684	4,684
Amount on deposits	-	7,572	7,572
Deferred Tax Liabilities	-	118	118
Other Liabilities	125	2,314	2,439
Total Liabilities	1,219	62,680	63,900
Net assets	-	6,244	6,244
Required Solvency margin	-	1,985	1,985
Surplus over Statutory Solvency Margin	-	4,258	4,258

Figures may not be additive due to rounding.

(*) Admissible surplus under IA basis = HKD 5,082 million with modified coinsurance reinsurance treaty and HKD 4,354 without modified coinsurance treaty.

- 7.20. After transfer, as at 31 December 2018, the Hong Kong statutory valuation of Sun Life included total net liabilities of HK\$66,601 million. This was compared with available assets of HK\$72,844 million. When all assets are included there are HK\$6,244 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$1,985 million.

31 December 2018 - HKFRS		Sun Life - After transfer	
HK\$ million	Class G	Shareholders' Fund and Others	Total
Assets			
Intangible Assets	-	1,217	1,217
Plant & equipment	-	73	73
Investments in securities	3,953	62,378	66,331
Reinsurance assets	-	1,598	1,598
Interest in a subsidiary	-	318	318
Investments in associate	-	241	241
Loans and other receivables	-	945	945
Deferred Tax Asset	-	-	-
Deferred Origination Cost (DOC)	-	716	716
Amount due to Shareholders' Fund / Amount due from Long Term business	(43)	43	-
Other Assets	2	532	535
Bank balances & cash	7	863	870
Total Assets	3,920	68,924	72,844
Liabilities			
Insurance contract liabilities	3,795	47,992	51,787
Investment contract liabilities	-	4,684	4,684
Amount on deposits	-	7,572	7,572
Deferred Tax Liabilities	-	118	118
Other Liabilities	125	2,314	2,439
Total Liabilities	3,920	62,680	66,601
Net assets	-	6,244	6,244
Required Solvency margin	-	1,985	1,985
Surplus over Statutory Solvency Margin	-	4,258	4,258

Figures may not be additive due to rounding.

- 7.21. The table below compares free asset ratios before and after the transfer as at 31 December 2018.

31 December 2018 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	92,918	68,586
Surplus over solvency margin (B)	4,278	4,258
Free asset ratio (B) / (A)	4.6%	6.2%

Dynamic solvency testing

- 7.22. Investigations into the financial position of the long term business under AGN7 issued by the Actuarial Society of Hong Kong (the "DST results") have been produced by both FWD and Sun Life. These DST results examine the risk profile of the companies before and after the proposed transfer under a number of possible adverse scenarios. I have been provided with these results for FWD and Sun Life with and without the Transferring Business. A summary of DST results is shown in Appendix F. The key conclusions are the following:

Before transfer under FWD

DST results show that the financial position of FWD remains satisfactory. In particular FWD solvency positions remain above the regulatory requirement in all prescribed scenarios after reflecting management action and risk management strategies such as reinsurance and hedging. There is no material difference in the future solvency positions of FWD whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of FWD total portfolio.

After transfer under Sun Life

DST results show that the financial position of Sun Life remains satisfactory for all the prescribed scenarios. In particular Sun Life solvency positions remain above the regulatory requirement in most of the prescribed scenarios (which are directly comparable to FWD's prescribed scenarios) and above 100% in all the scenarios. There is no material difference in the future solvency positions of Sun Life whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of Sun Life total portfolio.

Risk exposures

- 7.23. There have been DST projections which examine the financial positions of the companies before and after the proposed transfer under a number of possible adverse scenarios. In particular, these results examine the risk profile of the companies before and after the proposed transfer. I have been provided with these DST results for FWD and Sun Life with

and without the Transferring Business. I have considered these results to assess the impact of the Scheme on the Transferring Business.

- 7.24. The future solvency positions of both FWD and Sun Life are not materially impacted by whether or not the proposed transfer is executed. In particular the future solvency positions of both FWD before the transfer and Sun Life after the transfer remain satisfactory. In particular it remains above the regulatory requirement under most of the set of scenarios tested and above 100% under all the scenarios tested.
- 7.25. The risk exposure of Sun Life total portfolio after transfer appears to be comparable to the risk exposure of FWD before transfer. For both companies, the drop in interest rates, combined with an equity market and real estate shock is the most adverse prescribed scenario.
- 7.26. Overall, the Transferring Business only accounts for about 5% of the total Sun Life liabilities. So due to the relatively lack of materiality of the Transferring Business with regard to Sun Life total business, the additional risk introduced as a result of the transfer is not deemed material.
- 7.27. Investment risks are dependent on the investment policies for products offering minimum guarantees. I will consider the investment mandate involved with the Scheme separately. This consideration also covers other categories of risks including credit risk, liquidity risk and currency mismatch risk.
- 7.28. 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 the Transferring Policy holders, and hence the Scheme will not adversely affect the financial security of the Transferring Policy holders.

Investment policy

FWD investment policy

- 7.29. Investment activities within FWD are governed by investment policies, which are approved by the FWD Hong Kong Asset-Liability Management Committee, FWD Group Asset-Liability Management Committee, FWD Group Risk Management and Actuarial Committee and FWD Group Investment Committee.
- 7.30. I have been provided with the ALM guidelines, the currency mismatch position and the strategic asset allocation review papers of FWD before the transfer. In particular, these documents set out different investment policies which contain the strategic asset allocation, investment constraints and approval processes of each investment policy.
- 7.31. Each block of business subscribes to units of different funds. The funds are managed through Specialist Mandates, which are effectively the investment guidelines to fund managers.

Sun Life investment policy

- 7.32. Sun Life has confirmed that after the transfer, it will maintain a similar approach as FWD. In particular, the investment policies for the Transferring Business will be endorsed by Sun Life ALCO and approved by SLF Asia ALCO.
- 7.33. As mentioned in paragraph 5.25, Sun Life will maintain separate investment policies and asset allocations for the Transferring Business, and there will be no significant change to the target asset allocations and investment policies after the transfer. As the invested assets supporting the Transferring Business will be managed separately from the investment assets supporting the existing policies of Sun Life, there will be no conflicting investment objectives to reconcile, or varying operational standards to be aligned.
- 7.34. For the transferring internal ORSO business, underlying assets are currently managed under the investment department of FWD, while assets underlying the transferring MPF business and external funds for ORSO business are managed by external fund managers. After Scheme implementation, the assets underlying the transferring internal ORSO business will be managed internally by Sun Life investment department, and the assets underlying the other Transferring Business will continue being managed by external fund managers.

Impact of the split of FWD non-Class G plans

- 7.35. I have been informed by FWD that, before the Transfer, the account value of the two non-Class G agency plans LSB and Lions Fund, previously recorded as Class G business, has been transferred to FWD's Shareholders' Fund, while the associated GL7 reserve and smoothing reserve calculated previously by FWD but no longer required have been retained in the ORSO fund and will be transferred to Sun Life together with the Transferring ORSO Business on transfer date.
- 7.36. Hence it is my opinion that the split of FWD non-Class G plans will not have any material adverse effect on the financial security of the Transferring Policy holders.

Conclusion

- 7.37. In view of my assessment above, I believe the Scheme will have no material adverse effect on the financial security of the Transferring Policy holders. The main reasons for this opinion are summarised below:

Total reserves for the Transferring Business will be higher after the transfer than before the transfer and the underlying methodology is not expected to be changed materially

Under the prescribed scenarios, there is no material difference in the future solvency position of the Transferring Business before and after the transfer due to the lack of materiality of the Transferring Business with regards to the size of both FWD and Sun Life total portfolio.

Section 8 Impact of the Proposed Transfer – Effect on the Financial Security of policy holders of the non-transferring policies of FWD and Existing Sun Life Policy holders

- 8.1. In this section I consider the main issues relating to the financial security of the policy holders of the non-transferring policies of FWD and existing Sun Life policy holders. In arriving at my opinion, I have considered the issues covered in the paragraphs below.

Policy reserves

FWD non-Transferring Business

- 8.2. FWD has set up reserves using established methods and prudent assumptions certified by the Appointed Actuary of FWD in accordance with the Ordinance and the Actuarial Guidance Notes issued by the Actuarial Society of Hong Kong.
- 8.3. The reserving methodology and its underlying assumptions are reviewed from time to time as business and valuation techniques evolve to ensure that the reserves remain appropriate and comply with local regulations and prescribed guidelines. After the transfer, the reserving principles for the remaining policies will not change following the implementation of the Scheme. The same valuation methods will remain applicable after the transfer.
- 8.4. FWD retains the right to review the methodology as business and valuation evolve as a normal course of business, and the right exists whether or not the Scheme proceeds. The valuation bases adopted for each block of business will continue to be based on the underlying experience of the block and the investment return assumption will be based on the assets backing each of the respective blocks.
- 8.5. The current valuation basis adopted by FWD has been certified compliant with respect to Hong Kong requirements and is audited by the auditor of the company. The FWD basis after the transfer will be similarly audited. Any revised valuation approach or bases, as a result of the normal review process, will have to continue to comply with local regulations and prescribing guidelines.
- 8.6. After the transfer, FWD will have no in-force pension business except for the five internal Class G plans for FWD staffs and agents which will remain with FWD. For FWD Retained ORSO Business, the GL7 reserve and smoothing reserve have been calculated as follows

Minimum GL7 reserve.

The minimum GL7 reserve for ORSO business is split between FWD retained ORSO Business and the Transferring ORSO Business based on the Account Balance of internal funds.

Even though historically the two categories were managed in aggregate, this split was assessed to be reasonable given (i) economic assumptions are equal between the two blocks; (ii) average historical lapse experience has been close between the two blocks (although recent 2018 experience has been more volatile and has shown differences – further details are given in the Table below) and the minimum GL7 is not materially sensitive to change in lapses; and (iii) a quantitative assessment was made as at year end 2015 showing that the account value is an appropriate driver to split the GL7 reserve (further details are given in the Table below).

The Table below shows the historical lapse experience for the two blocks of business:

Lapse experience	Total	FWD Retained ORSO Business (*)	FWD Transferring ORSO Business
2013	6.6%	5.5%	6.8%
2014	13.1%	8.7%	13.9%
2015	6.3%	5.3%	6.6%
2016	6.6%	7.9%	6.2%
2017	8.5%	8.5%	8.5%
2018 (**)	9.9%	1.0%	13.1%
Average	8.9%	6.0%	9.7%

(*) includes the two agency plans which did not strictly meet the criteria of retirement scheme principles.

(**) 2018 low experience appears to be driven by volatility in claims. 2017 Lapse experience between the two blocks was much closer. 5-year average is used for assumption setting purpose.

The Table below shows the results of the quantitative assessment made as at year end 2015 which compares the minimum GL7 reserves calculated using the actuarial valuation model ("Approach A") against the proxy approach where the minimum GL7 reserve is allocated using the Account Balance ("Approach B").

Minimum GL7 reserve Year end 2015	Account balance	Approach A	Approach B
FWD Retained ORSO Business	650	43	43
FWD Transferring ORSO Business	1,707	112	113
Total	2,358	156	156

(*) includes the two agency plans which did not strictly meet the criteria of retirement scheme principles. Figures may not be additive due to rounding.

In addition, sensitivity tests have been performed on the minimum GL7 reserve as at 31 December 2018 to ensure the minimum GL7 reserve is not impacted materially by a significant change in lapse. The results are shown in the Table below and are expressed as a percentage of the Account Balance.

Minimum GL7 reserve expressed as a percentage of Account Balance – 31 December 2018

Base case scenario	8.76%
Lapse assumption increases by 50% (i.e. 150% of the rates under the base case)	8.40%
Lapse assumption decreases by 50% (i.e. 50% of the rates under the base case)	9.43%

Based on the analysis above, the apportionment methodology is not expected to impact materially the minimum GL7 reserve of FWD Retained ORSO Business and the Transferring ORSO Business.

Smoothing reserve.

The smoothing reserve for ORSO business is split between FWD Retained ORSO Business and the Transferring ORSO Business based on the Account Balance of internal funds. Even though the entire ORSO smoothing reserve will be transferred to Sun Life at Transfer Date, FWD will set up smoothing reserve for FWD Retained ORSO Business after the transfer equal to the smoothing reserve before the transfer (i.e. based on the split of the total smoothing reserve based on the Account Balance). The smoothing reserve will be funded from FWD Shareholders' Fund. Given the relatively limited size of this smoothing reserve (HKD 21 million), setting up this additional reserve is not expected to have a material impact on policy holders of the non-transferring policies of FWD .

- 8.7. The Table below shows the Statutory Reserve of FWD Retained ORSO Business before and after the Transfer:

HK\$ million	Before transfer			After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	435	38	21	435	38	21

Sun Life existing business

- 8.8. Similar to FWD, Sun Life has set up reserves using established methods and prudent assumptions certified by the Appointed Actuary of Sun Life in accordance with the Ordinance and the Actuarial Guidance Notes issued by the Actuarial Society of Hong Kong. The current valuation basis adopted by Sun Life has been certified compliant with respect to Hong Kong requirements and is audited by the auditor of the company.
- 8.9. The Sun Life basis after the transfer will be similarly audited. Any revised valuation approach or bases, as a result of the normal review process, will have to continue to comply with local regulations and prescribing guidelines.

Solvency Positions

FWD Solvency Position

- 8.10. Solvency margins are currently maintained by FWD, in addition to the policy reserves in respect of the contracts in-force. The table below shows the solvency positions based on the audited accounts of FWD as at 31 December 2018. The projection is based on a set of realistic assumptions for investment return, management expenses and new business sales to get the December 2019 to December 2021 projected solvency ratio. Solvency margin refers to the minimum Hong Kong statutory solvency requirement and solvency ratio expresses Shareholders' Funds as a proportion of the minimum solvency margin.

	FWD's solvency position			
	Actual Dec 2018	Dec 2019	Projected Dec 2020	Dec 2021
Statutory solvency ratio	233%	225%	225%	225%

- 8.11. The DST projections provided show that the solvency of FWD remains satisfactory and above the regulatory minimum requirement. The solvency ratio during the projection period will remain at or above 150% under the six prescribed scenarios. The projections do not show any material difference with and without the transfer and the future solvency positions of FWD will have similar sensitivities under the scenarios tested. The risk exposures do not materially change after the proposed transfer. Based on these results, there is no reason to believe that the transfer will prejudice the financial security of the remaining policy holders of FWD.

Sun Life Solvency position

- 8.12. The tables below present the projected solvency ratio without Transferring Policy holders and with Transferring Policy holders between December 2019 and December 2021. The projection is based on a set of realistic assumptions as at 31 December 2018 for investment return, management expenses and new business sales consistent with the business plan

submitted to the IA in March 2019. It also reflects the modified coinsurance signed in August 2016.

Sun Life's projected solvency position before transfer				
	Dec 2018	Dec 2019	Dec 2020	Dec 2021
Statutory solvency ratio	256%	234%	225%	218%

Sun Life's projected solvency position after transfer				
	Dec 2018	Dec 2019	Dec 2020	Dec 2021
Statutory solvency ratio	256%	234%	221%	215%

- 8.13. Sun Life produces DST projections which examine the solvency positions of the company before and after the proposed transfer under a number of possible adverse scenarios. The DST projections provided show that the solvency of Sun Life remains satisfactory and above the regulatory minimum requirement. The projections do not show any material difference with and without the transfer. Based on these results, there is no reason to believe that the transfer will prejudice the financial security of the remaining policy holders of Sun Life.

Dynamic solvency testing and risk exposure

FWD and Sun Life risk exposure

- 8.14. The Scheme will transfer the Class G ORSO business, excluding FWD Retained ORSO Business, and the Class G MPF business of FWD into Sun Life. There will be a transfer of risk from FWD to Sun Life.
- 8.15. The DST results show that, whether the Scheme is executed or not, the future solvency positions of both FWD and Sun Life have similar sensitivities under the scenarios tested. The risk exposures are not materially changed after the proposed Scheme. As a result, I consider that the risk exposures for policy holders of the non-transferring policies of FWD and existing Sun Life policy holders will have no material change after implementation of the Scheme.
- 8.16. There is no reason to believe that the Scheme will prejudice the financial security of the contractual rights of the policy holders of the non-transferring policies of FWD and of the existing policy holders of Sun Life.

Investment policy

FWD investment policy

- 8.17. After the proposed transfer, FWD will continue to operate the investment portfolio underlying the remaining policies in exactly the same manner as their respective investment policies and guidelines. Any future changes to these investment policies will undergo the same review process as a normal course of business. There is no reason to believe that this will adversely affect the financial security of the contractual rights of the remaining policy holders of FWD.

Sun Life investment policy

- 8.18. Sun Life will continue to operate the investment portfolio underlying the current policies in exactly the same manner as their respective investment policies and guidelines. Investment policies for Sun Life's existing Class G funds will not be affected by the proposed transfer.

Shareholder dividend policy

FWD shareholder dividend policy

- 8.19. While in Hong Kong there are no regulatory restrictions regarding transfer of surplus capital in excess of the required solvency margin, FWD complies with local regulatory capital requirements. This practice will not be altered as a result of the Scheme.
- 8.20. No shareholder dividend is expected to be distributed as a result of the transfer. Instead the divestiture is expected to reduce the amount of capital required from FWD Group to support future business growth.

Sun Life shareholder dividend policy

- 8.21. Sun Life complies with regulatory capital requirements and follows operational targets commensurate with its risk profile for prudent capital risk management to distribute shareholder dividend. The operational targets are determined by consideration of the following factors:

The capital required by the HK IA; and

An amount of capital in excess to the minimum requirement, which can be used to absorb adverse financial results, fund acquisitions or support growth when raising capital is not advantageous.

The operational targets will not be altered as a result of the Scheme.

Impact of the split of FWD non-Class G plans

- 8.22. Two FWD non-Class G plans have been transferred to FWD's Shareholders' Fund as at 31 December 2016. These two plans are maintained separately as an internal arrangement with FWD's agents. The split of these two non-Class G plans will not lead to any material

adverse impact on the financial security of the policy holders of the non-transferring policies of FWD as it will not impact the reserving methodology and investment policy of the remaining Class G plans. Also, it will not have any impact on the financial security of the existing Sun Life policy holders.

Conclusion

- 8.23. In view of my assessment above, I consider the Scheme will not expose the policy holders of the non-transferring policies of FWD to new risks of significance and will have no material adverse effect on the financial security of these policy holders.
- 8.24. I consider that the Scheme will have no material adverse effect on the financial security of the existing policy holders of Sun Life.

Section 9 Other Considerations

- 9.1. In this section, I have considered other operational areas that may impact the long term policy holders of the Parties if the Scheme proceeds.

Group structure

- 9.2. The group structure of the Parties will remain unchanged after the transfer, with FWD remaining as a wholly-owned subsidiary of FWD Limited after the transfer and Sun Life remaining as a wholly-owned subsidiary of Sun Life Financial of Canada.

Policy holder services

- 9.3. There is no intention to change the level of existing service to the remaining policy holders of FWD as a result of the Transfer. For investment linked policy holders, the existing range of fund choices currently available to them will not be adversely affected as a result of the the proposed transfer.
- 9.4. For the Transferring Policy holders, the existing range of fund choices currently available to them will be maintained after the proposed transfer. In addition, the policy holders will continue being serviced by BestServe (BestServe is a fellow subsidaray of Sun Life, and FWD outsourced part of the pension operations to BestServe).

Reinsurance arrangements

- 9.5. Before the transfer, there is no reinsurance in place with respect to the Transferring Business. For the non-Transferring Business of FWD and the existing business of Sun Life, the existing reinsurance arrangements will not be affected as a result of the transfer.
- 9.6. Sun Life has no intention to have any reinsurance arrangement for the Transferring Business.

Distribution agreement

- 9.7. FWD and Sun Life have entered into a 15-year exclusive distribution agreement allowing Sun Life to offer MPF and ORSO schemes through FWD's agency networks in Hong Kong. There will be no impact to the remaining policy holders of FWD.

Premiums and mandates

- 9.8. All premiums and contributions attributable or referable to the Transferring Policies, on and after the Transfer Date, will be payable to Sun Life.
- 9.9. Any mandate or other instruction in force on the Transfer Date (including, without limitation, any instruction given to a bank by its customer in the form of a direct debit or standing order) and providing for the payment by a banker or other intermediary of premiums payable under or in respect of any transferring Policy to FWD shall, on and from the Transfer Date, take effect as if it had provided for and authorised such payment to Sun Life.
- For MPF, the policy holder involved are the trustees of Sun Life MPF Basic Scheme, Sun Life MPF Comprehensive Scheme and Sun Life MPF Master Trust. Formal communication will be provided to these trustees by FWD at least 1 month before the Transfer Date so that these trustees can further inform the scheme custodian about the future premium payment arrangement.
- For ORSO, the policy holder involved are the employers of ORSO schemes. Employer notice will be sent to employers by FWD at least 1 month before the Transfer Date. The future premium payment arrangement will be documented in the employer notice.
- 9.10. Any mandate or other instruction in force on the Transfer Date as to the manner of payment of any sum payable by FWD under any of the Transferring Policies shall, on and from the Transfer Date, continue in force as an effective authority to Sun Life.

Variations to the Scheme

- 9.11. The Scheme provides that FWD and Sun Life may apply to the Hong Kong Court and Bermuda Court for consent to modify, vary or amend the terms of the Scheme, provided that:
- the proposed modification, variation or amendment has been approved by the respective Appointed Actuaries and Board of Directors of both FWD and Sun Life;
- the HK IA and the BMA shall be notified of, and has the right to be heard at any hearing of the Court at which such application is considered; and
- such application shall be accompanied by a certificate from an independent actuary to the effect that in his opinion, the proposed modification, variation or amendment will not materially and adversely affect the reasonable benefit expectations or the financial security of the holders of Transferring Policies.

Conclusion

- 9.12. I consider the above various operational areas will not have a material adverse impact on the long term policy holders of the Parties and should provide sufficient safeguards in the Scheme to ensure that the Scheme operates as presented.

Section 10 Policy holders Communications

- 10.1. Each shareholder of FWD and Sun Life, and each legal holder of the Transferring Policies of FWD and the policy holder of the Class G policies of Sun Life will receive copies of a circular, enclosed with a summary of the Scheme, further information on the hearings, key assessments of the Independent Actuary and a summary of the Independent Actuary's report ("Statutory Statements") in English and Chinese. The statutory notices (in English and Chinese) will each be published in English and Chinese newspapers respectively, and the Gazette in Hong Kong and Bermuda.
- 10.2. Sun Life and FWD is seeking the Court's direction on the dispensations: (i) the requirements for the setting out of the terms in the Scheme in the Statutory Statements be dispensed with, and that a summary of the terms of the Scheme be set out in the Statutory Statements in place of such full terms; and (ii) the sending of the relevant Statutory Statements to all other long term policy holders of FWD and all non-Class G policy holders of Sun Life be dispensed with.
- 10.3. Dispensation in (i) is sought for the reasons set out below:
- the terms of the entire Scheme are lengthy and complex, and it would be too technical for the members of Sun Life and FWD, and the legal holders of the Transferring Policies;
 - a copy of the Scheme will be made available at the websites of Sun Life and FWD, and available for inspection at the offices of Sun Life and FWD for not less than 21 days from the date of publication of the Statutory Notice. Any interested person who wishes to review the entire Scheme may visit the above websites or offices of Sun Life and FWD.
- 10.4. Dispensation in (ii) is sought for the reasons set out below:
- the Statutory Statements do not relate to the other long term policy holders of FWD and the non-Class G policy holders of Sun Life;
 - the appointed actuary of FWD and the Independent Actuary have opined that the Scheme would not have a material adverse effect on the reasonable benefit expectations and financial security of the policy holders of the non-transferring policies of FWD;
 - the appointed actuary of Sun Life and the Independent Actuary have opined that the Scheme would not have a material adverse effect on the reasonable benefit expectations and financial security of the existing policy holders of Sun Life;
 - distribution of the relevant Statutory Statement to all other long term policy holders of FWD and the non-Class G policy holders of Sun Life will likely give rise to unnecessary confusion;
 - distribution of the relevant Statutory Statement to all the other long term policy holders of FWD and the non-Class G policy holders of Sun Life will impose unnecessary

administrative and financial burden on FWD and Sun Life, without any real benefits to such policy holders; and

interpretation of "policy holders" for the purposes of Section 24 of the Ordinance should mean the trustees or employers to whom such policies are issued and the members of the relevant policies to whom a benefit has become due and payable.

- 10.5. Notwithstanding the dispensation in (ii), all the other policy holders will be appropriately informed of the proposed transfer through the:

statutory notice that will be published in the Government of the Hong Kong Special Administrative Region Gazette and [the South China Morning Post and the Hong Kong Economic Times];

copies of the Court Petition, of the relevant Statutory Statement, of the Scheme and of the Independent Actuary's Report will be made available for inspection by all policy holders at the offices of FWD, Sun Life and Baker & McKenzie; and

a copy of the Court Petition, of the relevant Statutory Statement, of the Scheme and of the Independent Actuary's Report will be posted in the websites of FWD and Sun Life on the date of publication of the statutory notice, and maintain that posting until an order sanctioning the Scheme is made on the Court Petition.

- 10.6. I consider the dispensation in (i) should not have a material adverse impact on each member of FWD and Sun Life and each legal holder of the Transferring Policies of FWD. Further, the Scheme should not have a material adverse effect on the reasonable benefit expectations and financial security of the policy holders of the non-transferring policies of FWD and all non-Class G policy holders of Sun Life, hence the dispensation in (ii) should not have a material adverse impact on them.
- 10.7. Sun Life and FWD policy holders who feel they will be negatively affected by the Scheme may put their objections to the Court either in writing, by attending the hearing or by asking a representative to raise their objection. In dealing whether to sanction the Scheme, the Court will consider these objections. I will also consider them in coming to my view on the appropriateness of the Scheme.
- 10.8. Sun Life and FWD shall, pursuant to section 24(3)(d) of the Ordinance, make copies of the Statutory Statements, of the Court Petition, of the Scheme and of the Independent Actuary's Report open for inspection at the office of FWD at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong; the office of Sun Life at 10/F, Sun Life Tower, The Gateway, 15 Canton Road, Kowloon, Hong Kong, and the office of Baker & McKenzie, the solicitors for the Joint Petitioners, at 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, between 9 a.m. to 5 p.m., on normal business days (Monday to Friday (except public holidays))

for 21 days from the date of publication of the statutory notice; and FWD Bermuda, Sun Life and Baker & McKenzie shall maintain a register of the names of persons who inspect the documents.

- 10.9. Sun Life and FWD (as the case may be) shall, pursuant to section 24(4) of the Ordinance, furnish copies of the Court Petition and the Independent Actuary's Report to any person who asks for one at any time before an order sanctioning the Scheme is made on the Court Petition.

APPENDIX A: TERMS OF REFERENCE

General Requirements

- A1. The Independent Actuary shall have a duty to act independently and this duty is paramount and overrides any obligation to the person from whom he has received instructions or by whom he is paid.
- A2. Evidence presented to the Hong Kong Court and/or the Bermuda Court should be, and should be seen to be, the independent product of the Independent Actuary uninfluenced by the exigencies of the instruction or court proceedings.
- A3. The Independent Actuary should provide independent assistance to the Hong Kong Court and/or the Bermuda Court where appropriate, by way of objective unbiased opinion in relation to matters within his expertise. He should never assume the role of an advocate.
- A4. The Independent Actuary should not omit to consider material facts within his knowledge which could detract from his concluded opinion.
- A5. The Independent Actuary should make it clear when a particular question or issue falls outside his expertise.
- A6. If the Independent Actuary's opinion is not properly researched because he considers that insufficient data is available, then this must be stated with an indication that the opinion is no more than a provisional one.
- A7. In a case where the Independent Actuary who has prepared a report could not assert that the report contained the truth, the whole truth and nothing but the truth without some qualification, that qualification should be stated in the report.
- A8. If the Independent Actuary changes his view on a material matter having read another expert's report or for any other reason, such change of view should be communicated in writing (through legal representatives) without delay to the Company, and where appropriate to the Hong Kong Court and/or the Bermuda Court.
- A9. The Independent Actuary may communicate with the HK IA and/or the BMA as he considers appropriate in connection with the services and the Scheme Report provided in connection with the appointment as Independent Actuary.

Schedule 2

Scope of the work of the Independent Actuary to the Hong Kong Scheme and/or the Bermuda Scheme

Any report to be prepared by the Independent Actuary including without limitation the Scheme Report is to consider the terms of the Hong Kong Scheme and/or the Bermuda Scheme generally and the likely effects which the Hong Kong Scheme and/or the Bermuda Scheme will have on the policy holders (and Scheme participants if required) of the Classes G long term policies underlying the external ORSO and MPF business involved in the Hong Kong Scheme and/or of the Class E long term business involved in the Bermuda Scheme as well as on the non-Transferring Policy holders of both FWD and Sun Life.

In particular such report will consider the following specific matters:

The impact of the Hong Kong Scheme and/or the Bermuda Scheme on the financial security of the different groups and generations of policy holders (and Scheme participants if required) involved in the Hong Kong Scheme and/or the Bermuda Scheme.

A review of, and opinion on the fairness of, proposals to combine any funds to the extent that any such combinations are included in the Hong Kong Scheme and/or the Bermuda Scheme (either as at the effective date or subsequently), and consideration of any further covenants or undertakings that may be required to ensure that each category of policy holder is treated fairly.

A review of, and opinion on the fairness of, any mechanisms to be implemented at the same time as the Hong Kong Scheme and/or the Bermuda Scheme, but not included in the Hong Kong Scheme and/or the Bermuda Scheme, to provide financial support to any of the funds involved in the Hong Kong Scheme and/or the Bermuda Scheme.

A review of the capital management policy to be adopted by the Companies following implementation of the Hong Kong Scheme and the Bermuda Scheme.

Part of the Class G business will not be transferred and will be retained by FWD. The carve-out of the retained portion from the transfer will also be covered in the Independent Actuary's review.

The Independent Actuary's review and report will address generally the way in which the Companies have conducted their Classes G long term business under the Hong Kong Scheme and Class E long term business under the Bermuda Scheme but taking into account the particular circumstances of each class of business to be transferred. It will deal inter alia with the following aspects:

Memorandum, and the Articles of Association, at least insofar as these affect the rights, expectations and interests of policy holders (and Scheme participants if required).

The terms of the policies issued by each of the Companies.

Promotional or marketing materials which would influence the reasonable expectations of policy holders (and Scheme participants if required).

The existing and proposed internal working arrangements relating to the financial management of the long term business fund of Classes G under the Hong Kong Scheme and the long term business fund of Class E under the Bermuda Scheme, including the operational and administrative arrangements which will apply to the policies to be transferred under the terms of the Hong Kong Scheme and/or the Bermuda Scheme.

The terms and conditions expected to be imposed by the Hong Kong Scheme and/or the Bermuda Scheme to be presented to the Hong Kong Court and/or the Bermuda Court, including the views expressed by the governing body or management of each of the Companies.

The terms of the previous Schemes of transfer concerning the policy holders (and Scheme participants if required) of the Companies, if any.

The above list is not intended to be exclusive to any other aspects which may be identified during the completion of the project and which are considered to be relevant.

The Independent Actuary shall not be directly involved in the formulation of the Hong Kong Scheme or the Bermuda Scheme although the Independent Actuary should be expected to give guidance during the evolution of the detailed proposals on those issues which concern him, or which he considers unsatisfactory.

The Independent Actuary will not provide any advice with respect to the merits of the Hong Kong Scheme and/or the Bermuda Scheme.

Schedule 3

Disclosure of prior Hong Kong assignments undertaken for the Companies and their related parties

The Hong Kong projects undertaken by Milliman Limited for FWD and its related companies over the last 10 years are as follows:

1. Embedded Value review in 2015, 2016, 2017 and 2018;
2. Financial Projections and Business Plan Review in 2015, 2016, 2017 and 2018;
3. M&A support (market entry, actuarial due diligence, appraisal support) from 2015 to 2019;
4. Product review and product proposition support;
5. Appointed Actuary Services for FWD Singapore;
6. ALM, risk appetite and economic balance sheet support from 2015 to 2019;
7. Prophet Liability and ALS support from 2015 to 2019.

The Hong Kong projects undertaken by Milliman Limited for Sun Life and its related companies over the last 10 years are as follows:

1. M&A support (market entry, actuarial due diligence, appraisal support) for various countries from 2011 to 2019.
2. High level advice regarding the regulatory, reserving (GL7 and smoothing) and capital issues associated with operating Class G business in Hong Kong in 2016;
3. Strategy review in 2011, 2013;
4. Reinsurance strategy review in 2012;
5. Participating business analysis in 2011.

APPENDIX B: KEY SOURCES OF DATA

Documents related to the Scheme

- B1. The Scheme pursuant to section 24 of the Ordinance (Cap. 41) and section 25 of the Bermuda Insurance Act 1978 for the transfer to Sun Life of FWD's Class G business, as filed with the Hong Kong Court and the Bermuda Court.
- B2. Appointed Actuary's Reports of FWD and Sun Life on the proposed transfer of Class G business of FWD to Sun Life.
- B3. GL7 required provision reports showing minimum required GL7 reserves of FWD before transfer, Sun Life before transfer, and of combined operations as a result of the proposed transfer, dated 31 December 2018.

FWD

- B4. Articles of Association of the company and Certificate of Compliance from HK IA governing operation of the Hong Kong branch.
- B5. Dynamic Solvency Testing reports showing solvency positions of FWD before transfer, dated 31 December 2018.
- B6. Risk Governance Structure of FWD.
- B7. FWD Operational Risk Committee, Asset-Liability Management Committee and Board structure.
- B8. Recent Board of Directors meeting minutes.
- B9. Internal audit reports on pension governance and framework for year end 2015.
- B10. ORSO crediting rate policy.
- B11. ORSO crediting rate recommendation report for the year end 2015, 2016, 2017 and 2018.
- B12. Investment Guarantee Reserve for MPF and ORSO business for the year end 2014, 2015, 2016, 2017 and 2018.
- B13. FWD Investment Policy and Mandate, including ALS guidelines, investment strategy and policies, for the year end 2017.
- B14. Risk management policy including approach to currency mismatch risk.
- B15. Audited accounts and financial statements of FWD, including details of any off-balance sheet contingencies and contingent liabilities, for the year end 2016, 2017 and 2018.
- B16. Explanatory memorandum for MPF and ORSO business.
- B17. Discretionary benefits illustrations and statements for MPF and ORSO business.
- B18. Historical crediting rate.
- B19. Customer complaints register.

- B20. Investment management arrangements with external managers.
- B21. Correspondence with the regulator for the year end 2015, 2016, 2017 and 2018.
- B22. Legal review of the classification of FWD Class G plans by an External Counsel
- B23. Ernst & Young Independent Audit Report for the Securities and Future Commission

Sun Life

- B24. Dynamic Solvency Testing results showing solvency positions of Sun Life before transfer, dated 31 December 2018.
- B25. Dynamic Solvency Testing report showing solvency positions of Sun Life after transfer, dated 31 December 2018.
- B26. Fund Structure of Sun Life before and after transfer.
- B27. Sun Life bonus recommendation for year end 2017 and year end 2018.
- B28. Sun Life Investment Policy, including investment strategy and policies, for the year end 2018.
- B29. Audited accounts and financial statements of Sun Life, including details of any off-balance sheet contingencies and contingent liabilities, for the year end 2018.
- B30. 2018 Sun Life Group ALM Business Operating Guideline.

APPENDIX C: PRUDENTIAL REGULATION AUTHORITY HANDBOOK SECTION 2.27 TO 2.40

- C1. In this appendix I set out the guidance in PRA's Handbook Section 2 (The Prudential Regulation Authority's approach to insurance business transfers) on the form of a report on an insurance business prepared by an independent expert.

Scheme report

Section 2.27

- C2. Under section 109 of 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). The PRA would generally expect a Scheme report to contain at least the information specified in 2.30 below before giving its approval.

Section 2.28

- C3. When the PRA has approved the form of a Scheme report, the Scheme promoter may expect to receive written confirmation to that effect.

Section 2.29

- C4. 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 his own opinion on such issues, which may differ from the opinion of the regulators.

Section 2.30

- C5. 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 PRA;
 - a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;
 - whether the independent expert, or his employer, 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 the report and whether any information that they requested has not been provided;

the extent to which the independent expert has relied on:

- a) information provided by others; and
- b) the judgment of others;

the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;

their opinion of the likely effects of the Scheme on policy holders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:

- a) Transferring Policy holders;
- b) policy holders of the transferor whose contracts will not be transferred; and
- c) policy holders of the transferee;

their 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 their opinion, be relevant to policy holders' consideration of the Scheme; and

for each opinion that the independent expert expresses in the report, an outline of their reasons.

Section 2.31

- C6. 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 policy holders, 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

- C7. 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

- C8. The independent expert's opinion of the likely effects of the Scheme on policy holders should:
- include a comparison of the likely effects if it is or is not implemented;
 - state whether they considered alternative arrangements and, if so, what;
 - where different groups of policy holders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policy holders; and
 - include their views on:
 - a) the effect of the Scheme on the security of policy holders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
 - b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:
 - i. the security of policy holders' contractual rights;
 - ii. levels of service provided to policy holders; or
 - iii. for long-term insurance business, the reasonable expectations of policy holders; and
 - c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policy holders' contractual rights, or for long-term insurance business, their reasonable expectations.

Section 2.34

- C9. The independent expert is not expected to comment on the likely effects on new policy holders, that is, (those whose contracts are entered into after the effective date of the transfer).

Section 2.35

- C10. 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 policy holders;
 - 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

C11. 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 policy holders to participate in profits;

if any such rights will be diluted by the Scheme, describe how any compensation offered to policy holders 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 policy holders;

describe the likely effect of the Scheme on the approach used to determine:

- a) the amount of any non-guaranteed benefits such as bonuses and surrender values ;
and
- b) 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 policy holders 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 policy holders;

state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policy holders; 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.

Section 2.37

C12. 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.

Section 2.38

- C13. 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 his report, for instance it might depend on future events; or

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 means of an order under section 112 of FSMA. The PRA considers any such reductions against 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

- C14. 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

- C15. 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 latest available financial information in respect of the transferor and transferee;

any recent economic, financial or regulatory developments; and

any representations made by policy holders or affected persons that raise issues not previously considered in the scheme report.

APPENDIX D: FINANCIAL SERVICES AUTHORITY HANDBOOK SUP18.2.31G TO 18.2.41G

- D1. 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.

Form of Scheme report

SUP 18.2.31G

- D2. Under section 109 of the Act, 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

- D3. 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

- D4. 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

- D5. 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:

a) information provided by others; and

b) 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 policy holders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:

a) Transferring Policy holders;

b) policy holders of the transferor whose contracts will not be transferred; and

c) policy holders 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 policy holders' 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

D6. 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 policy holders, 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

D7. 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

D8. The independent expert's opinion of the likely effects of the Scheme on policy holders 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 policy holders are likely to be affected differently by the Scheme, include comment on those differences he considers may be material to the policy holders; and

include his views on:

- a) the effect of the Scheme on the security of policy holders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
- b) 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:
 - i. the security of policy holders' contractual rights;
 - ii. levels of service provided to policy holders; or
 - iii. for long-term insurance business, the reasonable expectations of policy holders; and
- c) the cost and tax effects of the Scheme, in so far as they may affect the security of policy holders' contractual rights, or for long-term insurance business, their reasonable expectations.

SUP 18.2.37G

D9. The independent expert is not expected to comment on the likely effects on new policy holders, that is, those whose contracts are entered into after the effective date of the transfer.

SUP 18.2.38G

D10. 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 policy holders;

state whether, and to what extent, members will receive compensation under the Scheme for any diminution or 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

D11. 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 policy holders to participate in profits;

if any such rights will be diluted by the Scheme, how any compensation offered to policy holders 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 policy holders.

describe the likely effect of the Scheme on the approach used to determine:

a) the amount of any non-guaranteed benefits such as bonuses and surrender values ;
and

b) 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 policy holders 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 policy holders;

state whether the independent expert is satisfied that for each firm the Scheme is equitable to all classes and generations of its policy holders; 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

D12. 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

D13. 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: INSTITUTE OF ACTUARIES (UK) GUIDANCE NOTE 15

GN15: Transfer of Long-term Business of an Authorised Insurance Company - Role of the Independent Actuary

Classification

Recommended Practice.

Legislation or Authority

Insurance Companies Act 1982 (1982, c.50). Schedule 2C, Part I, Paragraph 2(1).

Friendly Societies Act 1992 (1992, c.40). Section 86.

Application

Actuaries invited to act as the 'Independent Actuary' in a transfer under Part I of Schedule 2C to the Insurance Companies Act 1982. Schedule 2C is given effect by Section 49 and was inserted by the Insurance Companies (Third Insurance Directives) Regulations 1994, SI 1994/1696, to replace the previous Sections 49, 49A, 49B, and 50-52. The general principles apply equally to transfers of business by or to friendly societies under the terms of Section 86 of the Friendly Societies Act 1992.

Author

Life Board

Status

Approved under Due Process.

Version	Effective from
1.0	01.06.90
1.1	01.09.90
2	01.01.98

E1 Introduction

- a. Under Part 1 of Schedule 2C of the Insurance Companies Act 1982, any Scheme which provides for the whole or part of the long-term business carried on in one or more EU member states by a UK insurance company (or in the UK, in the case of a non-UK insurance company) to be transferred to another body requires the prior sanction of the court. 'UK company' is given a specific meaning in Section 5(4) of the Insurance Companies Act 1982 and a non-UK company accordingly means any company carrying on insurance business which is not a UK company. The court will consider the Scheme on the basis of a petition by one of the parties, and the petition must be accompanied by a report on the terms of the Scheme by an Independent Actuary.
- b. The purpose of this Guidance Note is to advise an actuary invited to act as the Independent Actuary in a Schedule 2C transfer of the statutory and professional responsibilities such an appointment entails.
- c. The Independent Actuary should ascertain whether any business has been written through branches outwith the UK and, if so, whether such business is to remain with the transferor or to be transferred under Schedule 2C or under some similar legislation. In the latter case, a report on similar lines to that required under Schedule 2C may be required.

E2 Factors Influencing Acceptance of an Appointment as Independent Actuary

- a. Before accepting an appointment as the Independent Actuary in any particular case, an actuary must consider whether he or she has relevant practical knowledge and experience. Such experience would necessarily include familiarity with the role and responsibilities of an Appointed Actuary and with the types of long-term business transacted by the companies concerned. An actuary must also disclose to all the parties any direct or indirect interest the actuary may have or have had in any of them. Clearly, an actuary cannot act if such interest would, in the opinion of any party or its legal advisers, be likely to prejudice an actuary's status in the eyes of the court. In case of doubt, the situation should be discussed with the supervisory authority and the Secretary to the Professional Affairs Board before the appointment is accepted.
- b. The Act prescribes that a report on the terms of the Scheme by an Independent Actuary accompanies the petition to the court and the Independent Actuary's prime responsibility is, therefore, to the court. The Act does not prescribe who should appoint the Independent Actuary; in practice, the appointment is made by one of the parties to the Scheme – usually the party that will be petitioning the court. The purpose of the appointment is to secure an independent opinion for the court on the likely effects of the Scheme on the long-term policy holders of the companies concerned. It would, therefore, be improper for the Independent Actuary to take instructions from any of the parties on what should be included in or excluded from the report; or to be denied access by any of the parties to persons the Independent Actuary may wish to interview, or to information, reports and documents which the Independent Actuary may reasonably consider material to the formulation of an opinion on the likely effects of the Scheme on the long-term policy holders of the companies concerned. An actuary should ensure that this is understood by the parties concerned before accepting an appointment.

- c. If, for any reason other than the abandonment of the Scheme, the Independent Actuary's appointment is revoked or the Independent Actuary resigns prior to that individual's report being submitted to the court or being circulated (whether in summary or otherwise) to long-term policy holders, that individual should consider whether the circumstances are such that that individual should make them known to the supervisory authority. Any actuary offered an appointment as an Independent Actuary should enquire if the appointment has previously been accepted and subsequently vacated by another actuary; if so, an actuary should take all reasonable steps to establish the circumstances in which the revocation of the previous actuary's appointment or the resignation of the previous actuary took place.

E3 The Extent of the Independent Actuary's Involvement

- a. Given that the court is unlikely to sanction the Scheme if the Independent Actuary indicates serious dissatisfaction with its terms, it is in the interest of all the parties that, once an actuary has been appointed, the Independent Actuary is informed of the draft terms and provisions of the proposed Scheme at the various stages of its development. The Independent Actuary should therefore actively seek such information and be prepared to indicate with impartiality any terms or provisions which by their inclusion in or omission from the Scheme as drafted, as the case may be, would be likely to cause the Independent Actuary to express reservations about the Scheme in the report.
- b. The Secretary of State for Trade and Industry is entitled to be heard by the court when a petition is being considered. It is therefore advisable for the Independent Actuary to contact the supervisory authority at an early stage, with the knowledge of the petitioner, to establish whether there are any matters pertaining to the Scheme which the supervisory authority wishes to draw to the Independent Actuary's attention. The Independent Actuary should maintain this line of communication until the Scheme is presented to the court.
- c. The amount of investigative work that the Independent Actuary will need to do will depend on the circumstances of the case. The Independent Actuary should communicate with the Appointed Actuaries of all affected companies. It is reasonable for the Independent Actuary to expect the Appointed Actuary of the transferor company to provide such valuations of the assets and liabilities as the Independent Actuary may require, and to disclose information on such matters as how bonus rates have been determined in recent years in respect of any with-profit business. If the transferee company already has a long-term business fund of its own, similar information from the Appointed Actuary of that company may be necessary. It has become customary in cases of any complexity for the petition to be accompanied by a report from any Appointed Actuary concerned, although this is not a legal requirement. There may also be private actuarial reports to one or more of the parties, production of which would assist the Independent Actuary in appraising the terms of the Scheme. The Independent Actuary must, however, form an independent judgment on the quality of the information supplied, the reasonableness of the work of other actuaries, and, therefore, the extent of any investigative or verification work the Independent Actuary needs to do.
- d. The Independent Actuary might be asked to attend a meeting with the policy holders organised by the management of one of the companies. If so, the Independent Actuary

should consider carefully whether to do so would give the impression that the Independent Actuary was not completely independent. If the Independent Actuary should decide to attend the meeting, the Independent Actuary's position should be properly explained, and nothing that the Independent Actuary does or says at the meeting should undermine the perception of independence.

- e. In the case of a transfer involving a composite company, writing both long-term and general business, the Independent Actuary will need to understand the relevance of the general insurance business to the security of the long-term policy holders, and the Independent Actuary may need to seek independent specialist advice on this.
- f. Special considerations may also be called for where the transfer forms part of a chain of events including restructure, reinsurance or changes in ownership, and the Independent Actuary should seek explanations regarding corporate plans to the extent necessary for the whole picture to be clear.
- g. If the Appointed Actuary of any affected company has held that position only for a relatively short period of time, it might be appropriate for the Independent Actuary to seek information from the previous Appointed Actuary.
- h. Other documents the Independent Actuary will normally wish to examine in relation to each of the companies involved in the transfer will include:
 - its memorandum and articles of association and, if the company is currently trading, its latest annual report and accounts and supervisory returns;
 - the latest report submitted by its Appointed Actuary to the directors in accordance with paragraphs 8.1 to 8.5 of GN1, together with any recent reports submitted in accordance with GN 2;
 - participating guides issued by the company in recent years;
 - any reports, actuarial or otherwise, dealing specifically with PRE;
 - the bases used for own-charge illustrations;
 - sample quotations and policy documents which state or illustrate how policies will participate in profits, qualify for discretionary benefits, or be subject to future variations in charges;
 - any reports dealing with investment policy of the long-term business fund;
 - any reports evaluating alternative Schemes; and
 - any other relevant documents associated with the transfer.
- i. In addition, the Independent Actuary should ask about the operational plans of any company which, after the effective date, will have policy holders who fall to be considered in the Independent Actuary's report.

E4 The Report

- a. The Independent Actuary's report on the terms of the Scheme is required by Paragraph 2(1) of Schedule 2C to accompany the petition, but the court – unless it has otherwise directed – will not determine the application unless a statement setting out the terms of the Scheme and containing a summary of the Independent Actuary's report "sufficient to indicate the opinion of the actuary on the likely effects of the Scheme on the long term policy holders of the companies concerned" has been sent to each of those policy holders and to every member of those companies (Paragraph 2(2)(b) of Schedule 2C). The full report, being a public document, must be available for inspection by any person and therefore by any policy holder or member. The Independent Actuary should therefore bear in mind in preparing the report that policy holders and members may rely on it when considering how to cast their vote in any extraordinary general meeting called to approve the terms of the Scheme, and any member of the public may rely on it when considering whether or not to make representations to the court about the likely adverse effect of the Scheme on him or her.
- b. Similar considerations apply to the summary of the Independent Actuary's report which has to be sent to policy holders and members of the companies concerned. It is the Independent Actuary's responsibility to ensure that the contents of the summary are adequate, and that neither it nor any document which will accompany it gives a misleading impression of the findings in the full report. The summary need not contain background factual matter contained in the accompanying documents.
- c. It follows from 4a above that the Independent Actuary needs to consider and report as appropriate on the likely effects of the Scheme on (i) all transferring long-term policy holders, (ii) any long-term policy holders of the transferor company whose policies will remain with that company, and (iii) any long-term policy holders of the transferee company. Whilst not directly concerned with the effect of the Scheme on those who become policy holders on or after the date when, subject to the approval of the court, it will become effective, the Independent Actuary will need to consider whether the development plans of any of the companies involved may adversely affect policy holders with whom the Independent Actuary is concerned.
- d. It is a responsibility of the directors and managers of the relevant insurance company to consider alternative arrangements in order that the company may fulfil its obligations to conduct its business with due regard to the interests of policy holders and potential policy holders. The term 'Independent Actuary' might be interpreted by members of the public to indicate that the actuary was advising on the relative merits of one Scheme of transfer against other possible arrangements, although this is not specifically required by the legislation. Consistent with the nature of the legal requirements, the report must include a comparison of the likely effects on the long-term policy holders of the relevant companies if the Scheme of transfer being presented to the court is or is not implemented. In addition, the Independent Actuary should state clearly whether or not reports of alternative arrangements were considered.

- e. The contents of the Independent Actuary's report will be influenced by the circumstances of each case; the following are, however, some of the matters which the Independent Actuary should, where appropriate, cover in it:

The name of the party which has appointed the Independent Actuary and a statement of who is bearing the costs of that appointment.

A statement of the Independent Actuary's professional qualification.

Whether or not the Independent Actuary has a direct or indirect interest in any of the parties which might be thought to influence the Independent Actuary's independence; if the Independent Actuary has an interest, it should be disclosed.

The scope of the report in accordance with Paragraph 4d above.

The purpose of the Scheme.

A summary of the terms of the Scheme in so far as they are relevant to the contents of the Independent Actuary's report.

What documents and reports the Independent Actuary has considered in relation to each of the companies involved in the transfer and whether there was any additional information which was requested but not provided.

The cost and tax consequences of the Scheme, in so far as these will affect policy holders' funds.

The effect of the Scheme on the security of policy holders' contractual benefits.

The effect of the Scheme on the nature and value of any rights of policy holders to participate in profits. In particular, if any such rights will be diluted by the Scheme, how any compensation being offered to those policy holders as a group (which might take the form of an injection of funds, an 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 policy holders.

The likely effect of the Scheme on the approach used to determine the amounts of non-guaranteed benefits such as reversionary (or similar bonus which is added periodically over the term of the contract) and terminal bonuses and surrender values, and the levels of discretionary charges, for example under unit-linked policies; and what safeguards are provided by the Scheme against a subsequent change of approach that could act to the detriment of existing policy holders of either company and is not due to external circumstances beyond its control.

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 ability of the companies to meet throughout the lifetime of existing policies the reasonable expectations of the holders of those policies.

In the case of any mutual company involved in the Scheme, the effect of the Scheme on the proprietary rights of members of that company and, in particular, the significance of any loss or dilution of the rights of those members to secure or prevent further constitutional changes which could affect their expectations as policy holders (for

example, losing the ability to change the board and therefore control over a board's decision to convert to a closed fund). The Independent Actuary should state whether, and to what extent, members will receive compensation under the Scheme for any diminution in their proprietary rights, and comment on its appropriateness. Also, when commenting on the fairness of the Scheme, the Independent Actuary should pay particular attention to any differences in treatment between policy holders with voting rights and those without. It will assist the Independent Actuary if the issues involved are adequately explained in the directors' circular to policy holders.

Which matters, if any, the Independent Actuary has not taken into account or evaluated in the report that might nevertheless be relevant to policy holders' consideration of the Scheme.

The Independent Actuary's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term policy holders; whether the Independent Actuary is satisfied that for each of the companies concerned the Scheme is equitable to all classes and generations of its policy holders; and whether for each relevant company the Scheme places obligations on the directors, or provides for future certification by its Appointed Actuary, sufficient in the Independent Actuary's opinion for the protection of those expectations.

- f. Where the Independent Actuary expresses an opinion in the report, the Independent Actuary should outline the reasons for it.

APPENDIX F: DYNAMIC SOLVENCY TESTING (“DST”) RESULTS AND ASSUMPTIONS

FWD and Sun Life results before and after transfer

The tables below show the DST results for the six prescribed scenarios.

Solvency position of FWD before transfer

	2019 YE	2020 YE	2021 YE
Baseline	225%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	224%	222%	222%
Prescribed scenario 2	213%	205%	200%
Prescribed scenario 3	150%	150%	150%
Prescribed scenario 4	150%	185%	222%
Prescribed scenario 5	214%	196%	180%
Prescribed scenario 6	242%	265%	292%
<u>Compound scenario</u>			
Compound scenario 1	150%	159%	168%
Compound scenario 2	188%	195%	207%
Compound scenario 3	182%	181%	186%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	215%	216%	218%
Additional plausible adverse scenario 2	159%	169%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-1%	-3%	-3%
Prescribed scenario 2	-12%	-20%	-25%
Prescribed scenario 3	-75%	-75%	-75%
Prescribed scenario 4	-75%	-40%	-3%
Prescribed scenario 5	-11%	-29%	-45%
Prescribed scenario 6	17%	40%	67%
<u>Compound scenario</u>			
Compound scenario 1	-75%	-66%	-57%

	2019 YE	2020 YE	2021 YE
Compound scenario 2	-37%	-30%	-18%
Compound scenario 3	-43%	-44%	-39%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	-10%	-9%	-7%
Additional plausible adverse scenario 2	-66%	-56%	-45%

Solvency position of FWD after transfer

	2019 YE	2020 YE	2021 YE
Baseline	225%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	224%	222%	222%
Prescribed scenario 2	213%	205%	200%
Prescribed scenario 3	150%	150%	150%
Prescribed scenario 4	150%	186%	223%
Prescribed scenario 5	214%	196%	180%
Prescribed scenario 6	242%	265%	292%
<u>Compound scenario</u>			
Compound scenario 1	150%	159%	168%
Compound scenario 2	188%	195%	207%
Compound scenario 3	182%	181%	186%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	215%	216%	218%
Additional plausible adverse scenario 2	159%	169%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-1%	-3%	-3%
Prescribed scenario 2	-12%	-20%	-25%
Prescribed scenario 3	-75%	-75%	-75%
Prescribed scenario 4	-75%	-39%	-2%
Prescribed scenario 5	-11%	-29%	-45%
Prescribed scenario 6	17%	40%	67%

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Compound scenario

Compound scenario 1	-75%	-66%	-57%
Compound scenario 2	-37%	-30%	-18%
Compound scenario 3	-43%	-44%	-39%

Additional Plausible Adverse Scenario

Additional Plausible Adverse Scenario 1	-10%	-9%	-7%
Additional Plausible Adverse Scenario 2	-66%	-56%	-45%

Solvency position of Sun Life before transfer

	2019 YE	2020 YE	2021 YE
Baseline	234%	225%	218%
<u>Prescribed scenario</u>			
Prescribed scenario 1	229%	214%	202%
Prescribed scenario 2	225%	205%	187%
Prescribed scenario 3	161%	143%	112%
Prescribed scenario 4	114%	200%	295%
Prescribed scenario 5	227%	207%	187%
Prescribed scenario 6	245%	246%	247%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	114%	198%	284%
Plausible adverse scenario 2	204%	155%	107%
Plausible adverse scenario 3	228%	209%	192%
Plausible adverse scenario 4	228%	220%	213%
Plausible adverse scenario 5	159%	157%	157%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-11%	-16%
Prescribed scenario 2	-9%	-20%	-31%
Prescribed scenario 3	-73%	-82%	-106%
Prescribed scenario 4	-120%	-25%	77%
Prescribed scenario 5	-7%	-18%	-31%
Prescribed scenario 6	11%	21%	29%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-120%	-27%	66%
Plausible adverse scenario 2	-30%	-70%	-111%
Plausible adverse scenario 3	-6%	-16%	-26%
Plausible adverse scenario 4	-6%	-5%	-5%
Plausible adverse scenario 5	-75%	-68%	-61%

Solvency position of Sun Life after transfer

	2019 YE	2020 YE	2021 YE
Baseline	234%	221%	215%
<u>Prescribed scenario</u>			
Prescribed scenario 1	229%	211%	199%
Prescribed scenario 2	225%	201%	184%
Prescribed scenario 3	161%	139%	108%
Prescribed scenario 4	114%	191%	286%
Prescribed scenario 5	227%	204%	184%
Prescribed scenario 6	245%	242%	244%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	114%	194%	280%
Plausible adverse scenario 2	204%	153%	105%
Plausible adverse scenario 3	228%	206%	189%
Plausible adverse scenario 4	228%	216%	210%
Plausible adverse scenario 5	159%	154%	155%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-10%	-16%
Prescribed scenario 2	-9%	-20%	-31%
Prescribed scenario 3	-73%	-82%	-107%
Prescribed scenario 4	-120%	-30%	71%
Prescribed scenario 5	-7%	-17%	-31%
Prescribed scenario 6	11%	21%	29%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-120%	-27%	65%
Plausible adverse scenario 2	-30%	-68%	-110%
Plausible adverse scenario 3	-6%	-15%	-26%
Plausible adverse scenario 4	-6%	-5%	-5%
Plausible adverse scenario 5	-75%	-67%	-60%

Critical Assumptions in DST

F1. Summary of critical assumptions

The base scenarios use a realistic set of assumptions for investment return, management expenses and new business sales used to project the financial position over the forecast period of three years.

FWD specific assumptions

For the base scenario, assumptions for investment return are as of 31 December 2018, whereas assumptions for management expenses and new business sales are based on the internal business planning conducted in year 2018. The solvency position as of 31 December 2018 is taken as the starting position of the projections under all scenarios.

Sun Life specific assumptions

The base scenario is a realistic set of assumptions that are used to forecast Sun Life's financial position and condition over the forecast period. The base scenario is consistent with the Hong Kong Statutory Business Plan submitted to the IA.

The starting point of the projection is 31 December 2018 and the opening assets, liabilities, net assets and solvency ratio are the actual 2018 year end statistics as at 31 December 2018.

F2. Summary of scenarios

The scenarios conducted under the DST are as prescribed under the Guidance Note issued by the Actuarial Society of Hong Kong and required by the HK IA, with the aim to investigate the likely solvency of the companies under a range of adverse scenarios in the near future.

F3. Detailed descriptions of scenarios

The prescribed scenarios illustrated in the DST are as follows:

Prescribed scenario 1: deterioration in claims experience

Throughout the forecast period, allow for:

- 15% deterioration in mortality rates for life business;
- 15% deterioration in morbidity rates;
- 15% increase in incidence rates for disability, accident and sickness; and
- No adjustment in mortality for annuity business (it is noted that this approach is different from the standard AGN7 approach but it is considered to be appropriate due to the lack of materiality of the annuity business).

Prescribed scenario 2: deterioration in persistency experience

Throughout the forecast period, allow for an increase or decrease in lapse rates of 5%, depending on which alternative produces the most adverse results, by product.

Prescribed scenario 3: drop in interest rates, combined with a market crash

Throughout the forecast period, and commencing immediately after the valuation date:

- Interest rates are set to 70% of the rates projected in the base scenario; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

Prescribed scenario 4: rise in interest rates, combined with a market crash

- Interest rates are set to be 130% of the base scenario or the base scenario rates plus 2%, whichever is greater; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

Prescribed scenario 5: high new business growth rates

High growth throughout the forecast period, with growth rate being 30%, or 150% of plan growth rate if higher, and with a reasonable increase in expenses, consistent with the higher growth.

Prescribed scenario 6: low new business growth rates

Low growth throughout the forecast period, with year 1 sales being 80% of current year, followed by 20% drop for years 2 and 3, without any saving in expenses other than commission and commission-related expenses that are directly related to the new sales volume.

The compound scenarios illustrated in FWD DST are as follows:

Compound scenario 1: pandemic outbreak

Throughout the forecast period, allow for:

- Excess death of 0.75 per 1,000 at all ages in year 1;
- Excess morbidity of 1.50 per 1,000 at all ages in year 1;
- 15% increase in incidence rates for disability , accident and sickness;
- Equity and real estate market value dropped by 25%

Compound scenario 2: HKD/USD Spread Widening

Throughout the forecast period, allow for:

- 1% increase in USD government bond yield;
- Flat HKD bond yield;
- 1.5% increase in inflation assumption;
- Policy holder dividend increased by 15%;
- Universal life credit rate increased by average 0.2%

Compound scenario 3: HKD/USD Unpegged

Throughout the forecast period, allow for:

- USD and SGD depreciated by 10%;
- Equity and real estate value drops by 25%;
- 20% shock lapse of USD policies.

The plausible adverse scenarios illustrated in FWD DST are as follows:

Plausible adverse scenario 1: Operational Incidents

- This is an operational scenario. It happens when an error in unit pricing calculation occurs for Class C and G business that adversely impacts the accuracy of the net asset value, and a business operation disruption, resulting from the system failure for business other than Class C and G.

Plausible adverse scenario 2: Counterparty Default Events

- This is a counterparty default scenario. It happens when an economic recession triggering the defaults of major corporate bond issuers and the reinsurers.

The plausible adverse scenarios illustrated in Sun Life DST are as follows:

Plausible adverse scenario 1: Credit crises

This scenario tests a credit crisis triggering the following changes in economic assumptions.

- Short-term rates, medium-term rates and long-term rates increase immediately in 2019 by 1.00%. Interest rates then stay at this shocked level over the projection period.
- Credit spreads of corporate bonds increase immediately in 2019 by 1.00% (rating BBB or above) and 1.25% (below BBB), then stay at this shocked level over the projection period.
- Equity market value drops by 20% in 2019 and then equity continues to grow at the base scenario rate for the following years.
- Public and private bond and mortgage default rates are 500% of the base scenario in 2019 and the same as base scenario for the following years.

Plausible adverse scenario 2: USD / HKD non parallel drop

This scenario tests the economic impact from a non-parallel drop of USD and HKD interest rates. The shocked economic assumptions are the following:

- For USD economics, short-term rates, medium-term rates and long-term rates gradually drop by 1.00% by the end of the first year and then stay 1.00% lower than the base scenario over the remaining projection period.
- For HKD economics, short-term rates, medium-term rates and long-term rates gradually drop by 0.50% by the end of the first year and then stay 0.50% lower than the base scenario over the remaining projection period.
- Credit spreads of corporate bonds gradually increase by 0.50% by the end of the first year and then stay 0.50% higher than the base scenario over the remaining projection period.
- HKD-USD currency swap spread differential adversely changes by 100bps at the end of the first year and then stay at this level over the projection period.
- Equity market value drops by 12.5% per annum during the projection period.
- Public and private bond and mortgage default rates are 200% of the base scenario over the projection years.

Plausible adverse scenario 3: Anti-selective policy holder behaviour

This scenario assumes structural changes in the marketplace leading to some forms of anti-selection against the Company. Therefore, this scenario explores the effects of increased sophistication in the marketplace leading to anti-selective policy holder behavior through the opportunistic exercise of premium payment flexibility, partial withdrawal and voluntary termination of contracts.

- 15% deterioration in mortality rates.
- 15% deterioration in morbidity rates.
- Lapse rates will change +/-25%, depending on which alternative produces the most adverse results by product.
- For Universal Life and linked products, the premium persistency will be set to 75% of base scenario and partial withdrawal turns to 10% in 2019.

Plausible adverse scenario 4: Operational incidents

This scenario examines the resilience of the business to operational incidents, particularly for classed C and G business that have a relatively low minimum solvency requirement under the Ordinance. This scenario assumes the following:

- An error was detected after the 2018 year end reporting. In particular, 10% of the account value of Class C and Class G business was recorded and reported by 15% lower than the true account value due to an investment allocation mistake. Consequently, the Company will have to compensate the reduced payments to policy holders to correct the account value and will receive a regulatory fine of HKD 5 million.
- This event has an adverse impact on the Company's reputation, which causes 10% additional lapses for Class C products in first two years and the marketing expense in year 2019 and 2020 are HKD 20 million higher to acquire new business.

Plausible adverse scenario 5: Flu Pandemic & reinsurer default

This scenario examines the impact of an outbreak of a worldwide flu pandemic which negatively impacts many insurers' mortality / morbidity claims. Meanwhile reinsurers are severely impacted because of the large amount of quota share reinsurance that has been ceded, which leads to default of some reinsurers. The main assumptions are the following:

- The Company experiences higher mortality claims in 2019, in aggregate around 7 per thousand higher mortality rate. Claim experience returns to base in the following period.
- Critical Illness (CI) and Hospital Income (HI) claim experience in 2019 is also adversely impacted, resulting in negative income impact. The negative income impact is assumed to be 2% of the actual 2018 CI Claims and 25% of the actual 2018 HI claims.
- This scenario assumes that RGA (the most significant reinsurer for the Company) defaults in 2019, causing 50% of the above excess claims not recovered from RGA. This scenario also assumes that the Company will recapture the ceded business from

RGA and find a new reinsurer to cover the recaptured business at the end of 2019. The reinsurance rates for both inforce and future new business continue to be guaranteed but are increased by 20%.

APPENDIX G: THE TRANSFERRING POLICIES

G.1 List of Class G Policies – MPF Schemes as at 30 April 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

G.2 List of Class G Policies – ORSO Schemes as at 30 April 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
10	Dixmont Limited Provident Fund Scheme	18000602	16-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

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	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
11	Double Wire Limited Provident Fund Scheme	19000779	17-May-96	FWD Capital Guaranteed Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
12	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	11000207	27-Jun-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
13	EL Grande Holdings Limited Provident Fund Scheme	15000932	12-May-98	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
14	Fatti Components Limited Employees' Retirement Scheme	11000031	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
15	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	15000214	07-Feb-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
16	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
17	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
18	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

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	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
19	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
20	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
21	Hong Kong Federation of Women's Centres Provident Fund Scheme	11000262	27-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
22	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
23	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
24	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
25	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
26 (*)	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Provident Fund Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

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	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
27	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
28	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
29	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
30	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
31	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
32	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
33	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
34	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
35	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
36	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
37	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
38	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
39	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
40	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
41	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
42	Product Marketing Mayborn Limited Provident Fund Scheme	15000608	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
43	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
44	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
45	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
46	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
47	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
48	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
49	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
50	St. James' Settlement Provident Fund Scheme (1)	11000117	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
51	Sunny Creations Limited Provident Fund Scheme	11000354	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
52	Technik Industrial Co. Ltd. Provident Fund Scheme	11000299	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
53	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	15001034	12-Jul-11	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
54	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
55	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
56	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
57	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
58	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
59	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
60	Essendant Hong Kong Limited Provident Fund Scheme	5000302	15-Dec-11	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
61	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
62	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
63	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
64	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
65	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
66	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
67	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
68	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
69	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
70	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	810001023	24-Oct-11	FWD Capital Guaranteed Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
71	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
72	Caritas Retirement Fund	n/a	01-Jan-08	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-
73	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-
74	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-

(*) The scheme will be terminated, with the target date being 1 July 2019.

APPENDIX H: INDEPENDENT OPINION ON THE IMPACT OF THE SPLIT OF FWD NON-CLASS G PLANS ON FWD CLASS G POLICY HOLDERS AS AT 30 JUNE 2018

H.1 Introduction

- 1.1. I, Clement Bonnet, have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41 ("Ordinance", formerly Hong Kong Insurance Companies Ordinance), and as the Actuary pursuant to Section 25 of the Bermuda Insurance Act 1978, to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of certain long term pension business from FWD Life Insurance Company (Bermuda) Limited ("FWD") to Sun Life Hong Kong Limited ("Sun Life").
- 1.2. The long term business involved is referred to as the "Transferring Business" and comprises the Class G insurance policies, excluding the five internal retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"), written by FWD before the date the Scheme takes into effect (the "Transfer Date").
- 1.3. Prior to 31st December 2016, the following Agency Plans and Staff Plan (which the amount involved is HK\$696m) have been included in FWD's Class G Fund:

Members	Plan	Account Balance 31 st Dec 2016 (HK\$m)
FWD Staff	<i> FWD Life Insurance Company (Bermuda) Limited Retirement Scheme	
FWD Agents	<ii> Long Service Incentive Scheme	675
	<iii> Long Service Bonus Scheme (for all agents)	
	<iv> VNB Fund Scheme	
	<v> Victory Fund Scheme	
	<vi> Lions Fund	21
	<vii> Long Service Bonus Scheme (for agency heads)	

(*) Given liabilities of <vi> and <vii> have been transferred as at 31 December 2016, the amounts shown in the table above are as at 31 December 2016.

- 1.4. I am not aware of any issues in respect of the Class G plan <i>.
- 1.5. According to FWD, there were no written insurance policies issued by FWD in respect of the Class G Agency Plans (<ii> to <v>). Hence, the contributions made to the Class G Fund by the Agency Plans were not referable to any written Class G policies.
- 1.6. Following a legal review of the classification of FWD Class G plans by an External Counsel, two internal agency Class G plans (<vi> & <vii>) which did not strictly meet the criteria of retirement scheme principles as laid out in Schedule 1 (Classes of Insurance Business) of the Ordinance have been transferred to FWD's Shareholders' Fund as at 31 December 2016. These two plans are

maintained separately as an internal arrangement with FWD's agents and are neither part of the Transferring ORSO Business nor part of FWD Retained ORSO business at the Transfer Date.

- 1.7. These were the irregularities identified in respect of the FWD's Class G Fund. The Insurance Authority (formerly Office of the Commissioner of Insurance) has been notified of the irregularities and the remediation plan by FWD in August 2016 and has requested FWD to ensure at all times proper classification of policies in accordance with Part 2 of the First Schedule to the Ordinance.
- 1.8. I have been appointed to provide an independent opinion on the effect of this split on the remaining FWD Class G policy holders as at 30 June 2018.

H.2 Review of the proper documentation of FWD class G plans (<ii> to <v>)

- 1.9. For those Class G Agency Plans without written insurance policies issued by FWD as specified in clause 1.4 above, indeed, FWD has sought legal opinion on the proper documentation of these Class G plans and I have relied upon that advice. I understand there is no legal requirement under the Ordinance for FWD to issue formal policies for both Class G and non-Class G businesses, respectively. I understand there is no specified form of formal policies for Class G business, which is a statutory creation and not a "true" contract of insurance. It is a question of whether the schemes have characteristics which mean they fall within Class G business and need to be accounted for accordingly. Having said that, to have proper documentation, by way of Declaration of Trust, FWD has declared that it holds the assets of the relevant schemes on trust for the benefit of the members covered under the schemes and to enter into the insurance policies in its capacity as trustee with FWD (in its capacity as insurer) to meet the liabilities of the schemes with the Class G Policy. The respective scheme rules of each scheme to describe eligibility and benefits are also attached to the relevant Class G policies.

H.3 Review of the split of FWD non-class G plans (<vi> & <vii>)

Transfer of liabilities as at 31 December 2016

- 1.10. The account balance arising from the two non-Class G agency plans is equal to HK\$ 21 million as at 31 December 2016, which represents less than 1% of the total account balance of FWD Class G business as at 31 December 2016. A non-interest bearing inter-fund balance equal to the account balance has been set up as at 31 December 2016 and has been subsequently settled in the first half of 2018 as detailed in paragraph 1.12.
- 1.11. While the account balance is transferred to FWD Shareholders' Fund as at 31 December 2016, the other statutory reserves of Class G long term business – namely the provision for investment guarantee ("GL7 reserve") and the additional smoothing reserves – are no longer required for the two non-Class G agency plans and will remain within FWD retirement fund. Therefore, total reserves for the Class G business will not be adversely impacted by the split of FWD non-class G plans. Moreover, the split of FWD non-class G plans will not affect the reserving methodology and investment policy of the Transferring Policy holders of FWD and the policy holders of the non-transferring policies of FWD. After the transfer of liabilities, an annual actuarial investigation was made into the financial condition of FWD's long term business pursuant to section 18 of the Ordinance with the review of Class G business as at 31st December 2016 covered by the then GL7 Report.

Transfer of assets during the first half of 2018

1.12. The actual asset transfer did not happen as at 31 December 2016; instead a non-interest bearing inter-fund balance equal to the account balance was set-up between FWD retirement fund (payable) and Shareholders' Fund (receivable). The settlement of this non-interest bearing inter-fund balance was performed in the first half of 2018, in conjunction with the settlement of assets to meet withdrawal demands of the fund, for a total amount of HKD 344 million. The assets selected and divested have been mutually agreed between Sun Life and FWD such that the key characteristics of the asset portfolio backing the FWD Class G business remain similar before and after the divestment. The Table below shows some of the key metrics considered as part of this analysis:

Assets backing FWD Class G business as at end of March 2018		
Key metrics	Before divestment (% total assets)	After divestment (% total assets)
Asset mix		
Cash	2%	1%
Equity	15%	15%
Bond	84%	84%
Currency mix		
HKD	82%	82%
USD	18%	18%
Duration	3.39	3.41
Yield (%)	2.97	2.98
Average rating	A+	A+

1.13. In addition, the strategic asset allocation for the assets backing the Transferring ORSO Business and FWD Retained ORSO Business remain unchanged before and after the divestment. Assets backing the two internal agency plans (<vi> & <vii>) will follow the strategic asset allocation of the Shareholders' Fund but the discretionary crediting rate will be based on the crediting rate of FWD Retained ORSO business (irrespective of the asset performance of the Shareholders' Fund), leading to no material adverse effect on the benefit expectations of the policy holders of the two internal agency plans. Overall, the apportionment of assets is not expected to have any material impact on the reasonable benefit expectations and financial security of the Transferring Policy holders of FWD and the policy holders of the non-transferring policies of FWD.

1.14. The split of these two non-Class G plans will not lead to any material adverse impact on the benefit expectations of the remaining FWD Class G plans. FWD has no intention to change the investment strategy or the crediting rate philosophy as a result of the split. Any future review change will undergo the same review process as the one before the split.

H.4 Conclusion

1.15. In summary of my assessment above, I have concluded that the remedial actions for rectification of the irregularities are done properly and will have no material adverse impact on the interests of the holders of FWD Class G policies:

The remedial actions will have no material adverse effect on the reasonable benefit expectations of FWD Class G policies.

The remedial actions will have no material adverse effect on the financial security of FWD Class G policies.

ANNEX C
SUPPLEMENTARY REPORT

**Transfer of certain Class G
insurance policies underlying the
FWD MPF and ORSO business
from FWD Life Insurance
Company (Bermuda) Limited to
Sun Life Hong Kong Limited**

Supplementary Report of the Independent Expert

Prepared for:

**FWD Life Insurance Company (Bermuda) Limited
Sun Life Hong Kong Limited**

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Section 1 Introduction

Background

- 1.1. When an application is made to the High Court of the Hong Kong Special Administrative Region, Court of First Instance (the "Hong Kong Court") for an order to sanction the transfer of long term insurance business from one insurer to another, it must be accompanied by a report on the terms of the Scheme by an independent actuary in conformance to Section 24 of the Insurance Ordinance, Chapter 41 of the Laws of Hong Kong (the "Ordinance").
- 1.2. Similarly, when an application is made to the Supreme Court of Bermuda (the "Bermuda Court") for an order to sanction a transfer of long term insurance business, it must be accompanied by a report on the terms of the Scheme by an Approved Actuary ("Approved Actuary") in conformance to Section 25 of the Bermuda Insurance Act 1978.
- 1.3. I, Clement Bonnet, have been appointed by both FWD Life Insurance Company (Bermuda) Limited ("FWD") and Sun Life Hong Kong Limited ("Sun Life") as the Independent Actuary in connection with the proposed scheme of transfer (the "Scheme") of certain long term pension business from FWD to Sun Life. The long term business involved is referred to as the "Transferring Business" and comprises the Class G insurance policies, excluding the four internal retirement plans for FWD agents and staff which will remain with FWD¹ (namely: Long Service Incentive Scheme ("LSIS"), Long Service Bonus Scheme ("LSBS"), VNB Fund Scheme and FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, collectively called "FWD Retained ORSO Business"), written by FWD before the Transfer Date. The Class G policies are currently issued to trustees or employers of mandatory provident funds ("MPF") schemes and occupational retirement ("ORSO") schemes. The trustees or employers taking out these Class G insurance policies are collectively referred to herein as the "Transferring Policy holders". FWD and Sun Life are collectively referred to herein as the "Parties".
- 1.4. My appointment as the Independent Actuary has been noted by the Hong Kong Insurance Authority ("HK IA") and the Bermuda Monetary Authority ("BMA").
- 1.5. I prepared a report dated 26 June 2019 ("my Main Report") in which I considered the proposed transfer.

Scope of this Supplementary Report

- 1.6. The purpose of this report (the "Supplementary Report") is to provide an updated assessment of the likely effects of the proposed transfer in light of any developments or significant events since the date of my Main Report. I also consider whether the conclusions reached in my Main Report remain valid in the light of updated financial information received,

¹ Five internal retirement plans were mentioned in my Main Report. The Victory Fund Scheme has been removed in the Supplementary Report as this Scheme was fully vested and all payments were made to FWD agents (except for two FWD agents who have not responded to FWD's invitation to claim for their benefits).

any other relevant significant events subsequent to the date of finalisation of my Main Report.

- 1.7. In reporting on the Scheme I owe a duty to the Hong Kong Court and the Bermuda Court to help them 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. Details of the scope of my appointment, my qualifications, disclosures and the reliances and limitations applying to my work are provided in my Main Report.
- 1.8. This Supplementary Report should be read in conjunction with my Main Report, and both should be considered in their entirety. The reliances and limitations listed in Section 1 of my Main Report also apply equally to this report. In particular, this report does not provide financial or other advice to individual policy holders.
- 1.9. I understand that copies of this Supplementary Report will be made available on both FWD and Sun Life websites prior to the final court hearing (the "Sanctions Hearing").
- 1.10. I have been provided with free access to the information that I requested as necessary to conduct my work. The key documents that have been made available to me include the Scheme, the Reports of the Appointed Actuaries of the Parties as at 31 December 2018 (the "Reports of the Appointed Actuaries") on the Scheme, statutory reserve reports, crediting rates and investment policies, financial projections before and after the Scheme implementation and information related to management of the Parties. In addition, I have also been given unrestricted access to and held discussions with various representatives of the Parties.
- 1.11. The financial analysis in Section 3 of this Supplementary Report is based on audited financial information as at 31 December 2019. Other than as set out in the following sections, I am not aware of any recent developments that would materially affect my assessment of the proposed transfer.
- 1.12. This Supplementary report is based on data available to me and Milliman at, or prior to 14 August 2020, and takes no account of developments after that date. Neither I nor Milliman is under any obligation to update or correct inaccuracies which may become apparent in the report.

Structure of this Supplementary Report

- 1.13. This Supplementary Report is structured as follows:
 - Section 2 includes updates on relevant developments since I prepared my Main Report;
 - Section 3 provides an update of the financial position of FWD and Sun Life as at 31 December 2019;
 - Section 4 contains an overall conclusion.
- 1.14. An update of key statistics as at 31 March 2020 is provided in Appendix B.

Section 2 Relevant developments

Introduction

- 2.1. Since my Main Report has been produced there have been a number of developments of relevance to the Scheme, which I describe below.

Key statistics as at 31 December 2019

FWD

- 2.2. The following table shows the details of the long term and retirement business of FWD as at 31 December 2019:

31 December 2019 Class	Number of policies	Amount of net liability (HK\$'m)
A	363,478	59,197
C	17,919	5,765
D	2,731	229
I	269	5
Total	384,397	65,196

31 December 2019 Class	Number of participating schemes	Account balance (HK\$'m)	Amount of net liability (HK\$'m)
G – MPF	4,160 (*)	863	889
G – ORSO	72	2,090	2,402
Total	4,232	2,953	3,291

(*) The number of participating schemes refers to the number of employers while Appendix C lists out the number of MPF Class G policies.

Figures may not be additive due to rounding.

- 2.3. There is no change to the fund structures of FWD as at 31 December 2019.

Sun Life

- 2.4. The following table shows the details of the long term insurance business of Sun Life as at 31 December 2019:

31 December 2019 Class	Number of policies	Amount of net liability (HK\$'m)
A - Non-ring fenced	378,429	48,668
A - Ring fenced	101	45
C - Non-ring fenced	57,932	11,494
C - Ring fenced	2	9
I - Non-ring fenced	1,171	74
I - Ring fenced	2	16
Total	437,637	60,306

31 December 2019 Class	Number of participating schemes	Account balance (HK\$'m)	Amount of net liability (HK\$'m)
G - MPF - Non-ring fenced (*)	4,160 (**)	863	-
G - ORSO - Non ring-fenced (DA fund)	25	66	77
G - ORSO - Ring-fenced (DA fund)	55	834	965
H - ORSO - Ring fenced	4	694	694
Number of ORSO employer with both Class G and H Policies	(2)	-	-
MPF Class G Policies where FWD is the issuer of the insurance policies	(4,160)	(863)	-
Total	82	1,594	1,736

(*) Newly acquired MPF Capital Guaranteed Portfolio, where FWD remains as the issuer of the insurance policies.

(**) The number of participating schemes refers to the number of employers while Appendix A lists out the number of MPF Class G policies.

Figures may not be additive due to rounding.

- 2.5. There is no change to the fund structures of Sun Life as at 31 December 2019.

The Transferring Business

- 2.6. There is no change to the definition of the Transferring business as at 31 December 2019. On the Transfer Date, FWD will transfer all Class G policies under and in respect of the MPF schemes and ORSO schemes, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements, written by FWD before the Transfer Date, except the four internal ORSO retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"). In particular, assets backing all liabilities of the Transferring Business (i.e. the sum of Account Balance, minimum GL7 reserve and additional smoothing reserves as defined in my Main Report in paragraph 7.7) will be

transferred to Sun Life and, therefore, there will be no surplus / shortfall between total assets and total liabilities as a result of the way the statutory reserve has been set up.

- 2.7. The following tables show the details of the Class G long term business of FWD as at 31 December 2018 and 31 December 2019.

Class G long term business of FWD			
31 December 2018			
Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF	4,400	841	867
ORSO	81	2,049	2,306
Transferring ORSO Business	77	1,614	1,812
FWD Retained ORSO Business	4	435	494
Total	4,481	2,890	3,174

Class G long term business of FWD			
31 December 2019			
Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF (*)	4,160	863	889
ORSO	72	2,090	2,402
Transferring ORSO Business	68	1,617	1,853
FWD Retained ORSO Business	4	473	549
Total	4,232	2,953	3,291

(*) The number of participating schemes refers to the number of employers while Appendix C lists out the number MPF Class G policies.

Figures may not be additive due to rounding.

- 2.8. As at 31 December 2018, the long term business of FWD comprised 4,400 MPF schemes and 81 ORSO schemes while it comprised 4,160 MPF schemes and 72 ORSO schemes as at 31 December 2019. The amount of net liability of Class G ORSO business has increased between 31 December 2018 and 31 December 2019 from HK\$ 2,306 million to HK\$ 2,402 million. The amount of net liability of Class G MPF business has also increased from HK\$867 million as at 31 December 2018 to HK\$889 million as at 31 December 2019.
- 2.9. After transfer, both FWD and Sun Life fund structures will remain in line with what is described in my Main Report. In particular, to incorporate the Transferring Business, Sun Life will establish three new segregated Class sub-funds, namely new ORSO non-guaranteed sub fund, new ORSO capital guaranteed sub-fund and new MPF sub-fund.

Considerations affecting benefit expectations of Class G policy holders

- 2.10. Considerations affecting benefit expectations of retirement business include discretionary elements such as non-guaranteed crediting rates, fees and charges and the rights of the Transferring Policy holders.
- 2.11. In particular, the discretionary benefits of FWD ORSO business are affected by a discretionary crediting rate which is subject to a minimum guaranteed rate. As at 31 December 2019, only minimum guaranteed crediting rate of 0% p.a. was applicable. The discretionary crediting rate is determined based on four criteria that are unchanged since my Main Report :
- (i) the actual net investment return (the investment spread of 0.95% has remained unchanged since 31 December 2018);
 - (ii) the stability of return to policy holders;
 - (iii) the long-term supportability of the crediting rate; and
 - (iv) the competitiveness of the crediting rate.
- 2.12. Based on the latest ORSO crediting rate recommendation approved by FWD Hong Kong Asset-Liability Management Committee ("HK ALMCO") and Board dated 12 November 2019 and 13 December 2019 respectively, a crediting rate of 2.20% p.a. was declared from October 2018 to September 2019 (it was also 2.20% p.a. from October 2017 to September 2018). An interim crediting rate of 1.50% is effective from January 2020 (it was also 1.50% in 2019) and has been determined using the same methodology as the one described in my Main Report.
- 2.13. Overall, there are no changes to the approach used to determine discretionary elements since my Main Report has been prepared. In particular the approach followed by FWD to determine the crediting rate remains unchanged. In addition, the future governance procedures and safeguards provided by Sun Life against a change of approach that could have an adverse effect on policy holders are unchanged.

Conclusion

- 2.14. I am satisfied that none of the above developments affects the conclusions of my Main Report. The financial positions of FWD and Sun Life are considered in further detail in Section 3 of this Supplementary Report.

Section 3 The updated financial position as at 31 December 2019

Introduction

- 3.1. This section provides an update of the Class G policy reserves as at 31 December 2019 and also describes the financial position of FWD and Sun Life as at 31 December 2019.

Policy reserves of the transfer as at 31 December 2019

- 3.2. In line with the methodology described in my Main Report, FWD statutory reserve of Class G long term business is equal to the sum of
- accumulation of contributions paid into the fund, reduced by applicable expenses, fees or charges, and increased by interest credited in accordance with the applicable guaranteed rate or declared rate ("Account Balance");
 - provisions for investment guarantee ("GL7 reserves"); and
 - additional smoothing reserves.
- 3.3. The table below shows the Statutory Reserve of the Transferring Business before and after the Transfer using two different valuation dates, i.e. 31 December 2018 and 31 December 2019:

HK\$ million	FWD – Before transfer			Sun Life – After transfer		
31 December 2018	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	841	20	6	841	20	6
Transferring ORSO Business	1,614	128	70	1,614	128	91
Total	2,455	148	76	2,455	148	97

HK\$ million	FWD – Before transfer			Sun Life – After transfer		
31 December 2019	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	863	14	12	863	14	12
Transferring ORSO Business	1,617	159	76	1,617	159	101
Total	2,480	173	88	2,480	173	113

Figures may not be additive due to rounding.

3.4. At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business, in line with the approach described in my Main Report,

- Similar to FWD approach before the transfer, the minimum GL7 reserve for ORSO business (HK\$211 million) will be split between the Transferring ORSO Business and FWD Retained ORSO Business based on the Account Balance (HK\$159 million and HK\$51 million for the Transferring ORSO Business and FWD Retained ORSO Business respectively). As mentioned in my Main Report, even though historically the two types of business were managed in aggregate, this split was assessed to be reasonable given
 - (i) economic assumptions are set equal between the two blocks.
 - (ii) average historical lapse experience is close between the two blocks (although recent experience has been more volatile and has shown differences) and the minimum GL7 is not materially sensitive to change in lapses as shown in the tables below:

Historical lapse experience for the two blocks of business			
Lapse experience	Total	FWD Retained ORSO Business (*)	FWD Transferring ORSO Business
2015	6.3%	5.3%	6.6%
2016	6.6%	7.9%	6.2%
2017	8.5%	8.5%	8.5%
2018 (**)	9.9%	1.0%	13.1%
2019	6.5%	3.1%	7.4%
Average	7.6%	5.2%	8.4%

(*) includes the two agency plans which did not strictly meet the criteria of retirement scheme principles.

(**) 2018 experience appears to be driven by volatility in claims. 2017

Lapse sensitivity tests on the minimum GL7 reserve		
Minimum GL7 reserve expressed as a percentage of Account Balance	31 December 2018	31 December 2019
Base case scenario	8.76%	10.87%
Lapse assumption increases by 50% (i.e. 150% of the rates under the base case)	8.40%	10.72%
Lapse assumption decreases by 50% (i.e. 50% of the rates under the base case)	9.43%	11.31%

(iii) a quantitative assessment was made as at year end 2015 showing that the account value is an appropriate driver to split the GL7 reserve.

- The entire ORSO smoothing reserve, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO Business, will be transferred to Sun Life, leading to a higher smoothing reserve for the Transferring Business after the transfer (HK\$101 million after the transfer while HK\$76 million before the transfer).

3.5. The table below shows the Statutory Reserve of FWD Retained ORSO Business before and after the Transfer using two different valuation dates, i.e. 31 December 2018 and 31 December 2019.

HK\$ million		Before transfer		After transfer		
31 December 2018	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	435	38	21	435	38	21

HK\$ million		Before transfer		After transfer		
31 December 2019	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	473	51	25	473	51	25

Figures may not be additive due to rounding.

3.6. Even though the entire ORSO smoothing reserve will be transferred to Sun Life at Transfer Date, FWD will set up smoothing reserve for FWD Retained ORSO Business after the transfer equal to the smoothing reserve before the transfer based on the split of the total smoothing reserve based on the Account Balance (HK\$25 million). The smoothing reserve will be funded from FWD Shareholders' Fund. Given the relatively limited size of this smoothing reserve, setting up this additional reserve will have an immaterial impact on the overall solvency position of FWD and therefore on the financial security of policy holders of the non-transferring policies of FWD.

Financial position as at 31 December 2019

3.7. From the audited accounts as at 31 December 2019, the valuation of FWD, under the Hong Kong statutory basis, included total liabilities of HK\$100,442 million. This was compared with total assets of HK\$111,379 million. When all assets are included (including the non-distributable surplus of HK\$391 million) except the amount of capital for FWD Vietnam and FWD Malaysia (HK\$2,117 million), there are HK\$6,339 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,872 million.

31 December 2019 - HKFRS HK\$ million	FWD Total
Assets	
Intangible Assets	0
Held-to-maturity financial assets	3,553
Available-for-sale financial assets	67,666
Financial assets at fair value through profit or loss	11,755
Loans and receivables	1,158
Deferred Tax Assets	0
Reinsurance Assets	14,174
Other Assets	10,339
Insurance receivables	2,733
Total Assets	111,379
Insurance contract liabilities(*)	92,341
Investment contract liabilities	2,498
Liabilities held for sale	2,791
Other Liabilities	2,812
Total Liabilities	100,442
Net assets	10,937
Non-distributable surplus	391
Capital for FWD Vietnam and FWD Malaysia	(2,117)
Statutory net assets	9,211
Required Solvency margin	2,872
Surplus over Statutory Solvency Margin	6,339

Figures may not be additive due to rounding.

Exchange rate as at 31 December 2019 is US\$1 = HK\$7.78645184.

(*) Including non-distributable surplus of HK\$391m.

- 3.8. Before transfer, as at 31 December 2019, the Hong Kong statutory valuation of Sun Life included total liabilities of HK\$77,535 million. This was compared with total assets of HK\$84,977 million. When all assets are included there are HK\$7,442 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,369 million.

31 December 2019 - HKFRS		Sun Life - Before transfer	
HK\$ million	Class G	Shareholders Fund and Others	Total
Assets			
Intangible Assets	-	1,099	1,099
Plant & equipment	-	85	85
ROU assets	-	524	524
Investments in securities	1,249	74,525	75,774
Reinsurance assets	-	3,306	3,306
Interest in a subsidiary	2	318	320
Investments in associate	-	221	221
Loans and other receivables	-	1,029	1,030
Deferred Tax Asset	-	-	-
Deferred Origination Cost (DOC)	-	808	808
Amount due to Shareholders' Fund / Amount due from Long Term business	(51)	51	-
Other Assets	1	679	680
Bank balances & cash	5	1,125	1,130
Total Assets	1,207	83,770	84,977
Liabilities			
Insurance contract liabilities	1,042	59,300	60,342
Investment contract liabilities	-	5,203	5,203
Amount on deposits	-	8,117	8,117
Deferred Tax Liabilities	-	182	182
Other Liabilities	165	3,526	3,690
Total Liabilities	1,207	76,328	77,535
Net assets			7,442
Required Solvency margin			2,369
Surplus over Statutory Solvency Margin			5,072

Figures may not be additive due to rounding.

- 3.9. After transfer, as at 31 December 2019, the Hong Kong statutory valuation of Sun Life included total net liabilities of HK\$80,302 million. This was compared with total assets of HK\$87,743 million. When all assets are included there are HK\$7,442 million assets in

excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,369 million.

31 December 2019 - HKFRS		Sun Life - After transfer	
HK\$ million	Class G	Shareholders Fund and Others	Total
Assets			
Intangible Assets	-	1,199	1,199
Plant & equipment	-	85	85
ROU assets	-	524	524
Investments in securities	4,015	74,525	78,540
Reinsurance assets	-	3,306	3,306
Interest in a subsidiary	2	318	320
Investments in associate	-	221	221
Loans and other receivables	-	1,029	1,030
Deferred Tax Asset	-	0	0
Deferred Origination Cost (DOC)	-	808	808
Amount due to Shareholders' Fund / Amount due from Long Term business	(51)	51	0
Other Assets	1	679	680
Bank balances & cash	5	1,025	1,030
Total Assets	3,973	83,770	87,743
Liabilities			
Insurance contract liabilities	3,808	59,300	63,108
Investment contract liabilities	-	5,203	5,203
Amount on deposits	-	8,117	8,117
Deferred Tax Liabilities	-	182	182
Other Liabilities	165	3,526	3,690
Total Liabilities	3,973	76,328	80,301
Net assets			7,442
Required Solvency margin			2,369
Surplus over Statutory Solvency Margin			5,072

Figures may not be additive due to rounding.

- 3.10. The table below compares free asset ratios before and after the transfer as at 31 December 2017, 31 December 2018 and 31 December 2019. As at 31 December 2017 and as at 31 December 2018, Sun Life's free asset ratio was higher than FWD's free asset ratio while

the ratio is closer as at 31 December 2019 given FWD injected US\$225 million (HK\$1,752 million) of capital in August 2019.

31 December 2017 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	86,609	70,512
Surplus over solvency margin (B)	4,035	4,122
Free asset ratio (B) / (A)	4.7%	5.8%
31 December 2018 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	92,918	68,586
Surplus over solvency margin (B)	4,278	4,258
Free asset ratio (B) / (A)	4.6%	6.2%
31 December 2019 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	103,314	82,670
Surplus over solvency margin (B)	6,339	5,072
Free asset ratio (B) / (A)	6.1%	6.1%

- 3.11. As at 31 December 2019, there is no additional solvency margin requirement in Hong Kong for Class G business on top of the existing GL7 reserve requirement. However the comparison of the overall solvency position of both FWD and Sun Life should also help assess the financial security of policy holders. The table below compares the solvency ratios as at 31 December 2017, 31 December 2018 and 31 December 2019 for both FWD and Sun Life before transfer.

Solvency ratio before transfer	FWD (*)	Sun Life (**)
31 December 2017	244%	257%
31 December 2018	233%	256%
31 December 2019	321%	266%

(*) The solvency ratios exclude the amount of capital for FWD Malaysia and FWD Vietnam and includes the capital injection of US\$225 million. The increase in solvency ratio between 31 December 2018 and 31 December 2019 is due to a capital injection of US\$ 225 million in August 2019.

(**) The solvency ratios reflect the modified coinsurance signed in August 2016.

3.12. Sun Life's solvency ratio has slightly increased from 256% as at 31 December 2018 to 266% as at 31 December 2019. FWD's solvency ratio increased significantly between 31 December 2018 and 31 December 2019 due to a capital injection of US\$225 million in August 2019. Overall, and similar to the conclusions of my Main Report, the actual solvency positions of both Sun Life and FWD remain well above the minimum regulatory requirement as at 31 December 2019.

3.13. Insurance companies are required to examine annually the financial position of the overall business under a number of adverse scenarios as prescribed by the Actuarial Guidance Note 7 ("AGN7") on Dynamic Solvency Testing ("DST") issued by the Actuarial Society of Hong Kong and required by the HK IA. I have been provided with these DST results for FWD and Sun Life with and without the Transferring Business as at 31 December 2019. I have considered these results to assess the impact of the Scheme on the Transferring Business

- The future solvency positions of both FWD and Sun Life are not materially impacted by whether or not the proposed transfer is executed. In particular the future solvency positions of both FWD before the transfer and Sun Life after the transfer remain satisfactory. In particular it remains above the regulatory requirement under most of the sets of scenarios tested and above 100% under all the scenarios tested.
- The risk exposure of Sun Life total portfolio after transfer appears to be relatively comparable to the risk exposure of FWD before transfer, although FWD may be more materially exposed to certain risks than Sun Life. For both companies, the drop in interest rates, combined with an equity market and real estate shock is the most adverse prescribed scenario (prescribed scenario 3).

As a consequence, I consider that my conclusions in respect of the risk exposures of policy holders remain valid and the risk exposure of policy holders will not be materially impacted by the transfer.

3.14. In addition, the overall solvency position of Sun Life is not materially impacted by whether or not the proposed transfer is executed given the Transferring Business only accounts for less than 5% of the total Sun Life liabilities as at 31 December 2019.

Conclusion

3.15. Based on the paragraphs above, the overall financial position of both FWD and Sun Life (before and after Transfer) has not changed significantly between 31 December 2018 and

31 December 2019. I am satisfied that my conclusions in respect of the financial position of both FWD and Sun Life before and after transfer remain valid.

Section 4 Conclusions

- 4.1. I have considered relevant developments brought to my attention by FWD and Sun Life since the completion of my Main Report. I have not changed my conclusions regarding the likely effects of the Scheme.
- 4.2. In my opinion,
- The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Clement Bonnet
Independent Actuary
14 August 2020

C. Bonnet.

APPENDIX A: DYNAMIC SOLVENCY TESTING (“DST”) RESULTS AND ASSUMPTIONS

FWD and Sun Life results before and after transfer

The tables below show the DST results for the six prescribed scenarios and additional compound and plausible adverse scenarios.

Solvency position of FWD before transfer

	2020 YE	2021 YE	2022 YE
Baseline	206%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	204%	222%	220%
Prescribed scenario 2	196%	206%	202%
Prescribed scenario 3 (*)	150%	150%	150%
Prescribed scenario 4 (*)	150%	219%	278%
Prescribed scenario 5	187%	179%	151%
Prescribed scenario 6	212%	251%	278%
<u>Compound scenario</u>			
Compound scenario 1 (*)	150%	168%	169%
Compound scenario 2	163%	163%	150%
Compound scenario 3	170%	186%	183%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	195%	215%	216%
Additional plausible adverse scenario 2 (*)	150%	175%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-2%	-3%	-5%
Prescribed scenario 2	-10%	-19%	-24%
Prescribed scenario 3 (*)	-56%	-75%	-75%
Prescribed scenario 4 (*)	-56%	-6%	53%
Prescribed scenario 5	-19%	-46%	-75%
Prescribed scenario 6	6%	26%	52%
<u>Compound scenario</u>			

	2020 YE	2021 YE	2022 YE
Compound scenario 1 (*)	-56%	-57%	-57%
Compound scenario 2	-43%	-62%	-75%
Compound scenario 3	-36%	-39%	-42%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	-11%	-10%	-9%
Additional plausible adverse scenario 2 (*)	-56%	-51%	-45%

(*) Additional management actions have been taken into account

Solvency position of FWD after transfer

	2020 YE	2021 YE	2022 YE
Baseline	206%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	204%	222%	220%
Prescribed scenario 2	196%	206%	202%
Prescribed scenario 3 (*)	150%	150%	150%
Prescribed scenario 4 (*)	150%	221%	279%
Prescribed scenario 5	187%	179%	151%
Prescribed scenario 6	212%	251%	278%
<u>Compound scenario</u>			
Compound scenario 1 (*)	150%	168%	169%
Compound scenario 2	163%	163%	150%
Compound scenario 3	170%	186%	183%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	195%	216%	217%
Additional plausible adverse scenario 2 (*)	150%	175%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-2%	-3%	-5%
Prescribed scenario 2	-10%	-19%	-23%
Prescribed scenario 3 (*)	-56%	-75%	-75%

Prescribed scenario 4 (*)	-56%	-5%	54%
Prescribed scenario 5	-19%	-46%	-75%
Prescribed scenario 6	6%	26%	52%
<u>Compound scenario</u>			
Compound scenario 1 (*)	-56%	-57%	-57%
Compound scenario 2	-43%	-62%	-75%
Compound scenario 3	-36%	-39%	-42%
<u>Additional Plausible Adverse Scenario</u>			
Additional Plausible Adverse Scenario 1	-10%	-10%	-9%
Additional Plausible Adverse Scenario 2 (*)	-56%	-51%	-45%

(*) Additional management actions have been taken into account

Solvency position of Sun Life before transfer

	2020 YE	2021 YE	2022 YE
Baseline	275%	226%	209%
<u>Prescribed scenario</u>			
Prescribed scenario 1	270%	215%	193%
Prescribed scenario 2	262%	201%	173%
Prescribed scenario 3 (*)	192%	134%	112%
Prescribed scenario 4	152%	210%	285%
Prescribed scenario 5	264%	200%	170%
Prescribed scenario 6	283%	250%	249%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	202%	194%	216%
Plausible adverse scenario 2	144%	194%	251%
Plausible adverse scenario 3 (*)	209%	134%	110%
Plausible adverse scenario 4	268%	209%	184%
Plausible adverse scenario 5	269%	219%	202%
Plausible adverse scenario 6	213%	171%	160%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-11%	-16%
Prescribed scenario 2	-13%	-25%	-36%
Prescribed scenario 3 (*)	-83%	-92%	-97%
Prescribed scenario 4	-123%	-16%	76%
Prescribed scenario 5	-11%	-26%	-39%
Prescribed scenario 6	8%	24%	40%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-73%	-32%	7%
Plausible adverse scenario 2	-131%	-32%	42%
Plausible adverse scenario 3 (*)	-66%	-92%	-99%
Plausible adverse scenario 4	-7%	-17%	-25%
Plausible adverse scenario 5	-6%	-7%	-7%
Plausible adverse scenario 6	-62%	-55%	-49%

(*) Additional management actions have been taken into account

Solvency position of Sun Life after transfer

	2020 YE	2021 YE	2022 YE
Baseline	271%	223%	206%
<u>Prescribed scenario</u>			
Prescribed scenario 1	266%	212%	190%
Prescribed scenario 2	258%	198%	170%
Prescribed scenario 3 (*)	188%	129%	107%
Prescribed scenario 4	147%	205%	280%
Prescribed scenario 5	260%	197%	168%
Prescribed scenario 6	279%	247%	246%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	198%	191%	215%
Plausible adverse scenario 2	140%	190%	246%
Plausible adverse scenario 3 (*)	204%	130%	108%
Plausible adverse scenario 4	263%	205%	181%
Plausible adverse scenario 5	265%	216%	200%
Plausible adverse scenario 6	209%	168%	158%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-11%	-16%
Prescribed scenario 2	-13%	-25%	-36%
Prescribed scenario 3 (*)	-83%	-94%	-99%
Prescribed scenario 4	-124%	-18%	74%
Prescribed scenario 5	-11%	-26%	-38%
Prescribed scenario 6	8%	24%	40%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-73%	-32%	9%
Plausible adverse scenario 2	-131%	-33%	40%
Plausible adverse scenario 3 (*)	-67%	-93%	-98%
Plausible adverse scenario 4	-8%	-18%	-25%
Plausible adverse scenario 5	-6%	-7%	-6%
Plausible adverse scenario 6	-62%	-55%	-48%

(*) Additional management actions have been taken into account

Critical Assumptions in DST

F1. Summary of critical assumptions

The base scenarios use a realistic set of assumptions for investment return, management expenses and new business sales used to project the financial position over the forecast period of three years.

FWD specific assumptions

The base scenario is based on the business plan conducted at mid-year 2019 with the following updated:

- Use of best estimate assumption effective as at year end 2019;
- In-force business data as at year end 2019.

Given the volatility observed in the market during the first quarter of 2020, the following adjustments have also been considered:

- Latest reforecast of new business sales;
- Interest rate and equity value up to 31 March 2020.

Sun Life specific assumptions

The base scenario is a realistic set of assumptions that are used to forecast Sun Life's financial position and condition over the forecast period. The base scenario is consistent with the Hong Kong Statutory Business Plan submitted to the IA in June 2020 with the additional inclusion of the new coinsurance signed at the end of March 2020 that covers inforce High Net Worth business.

The starting point of the projection is 31 December 2019 and the opening assets, liabilities, net assets and solvency ratio are the actual 2019 year end statistics as at 31 December 2019.

F2. Summary of scenarios

The scenarios conducted under the DST are as prescribed under the Guidance Note issued by the Actuarial Society of Hong Kong and required by the HK IA, with the aim to investigate the likely solvency of the companies under a range of adverse scenarios in the near future.

F3. Detailed descriptions of scenarios

The prescribed scenarios illustrated in the DST are as follows:

- *Prescribed scenario 1: deterioration in claims experience*

Throughout the forecast period, allow for:

- 15% deterioration in mortality rates for life business;
- 15% deterioration in morbidity rates;
- 15% increase in incidence rates for disability, accident and sickness; and
- No adjustment in mortality for annuity business (it is noted that this approach is different from the standard AGN7 approach but it is considered to be appropriate due to the lack of materiality of the annuity business).

- *Prescribed scenario 2: deterioration in persistency experience*

Throughout the forecast period, allow for an increase or decrease in lapse rates of 5%, depending on which alternative produces the most adverse results, by product.

- *Prescribed scenario 3: drop in interest rates, combined with a market crash*

Throughout the forecast period, and commencing immediately after the valuation date:

- Interest rates are set to 70% of the rates projected in the base scenario; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

- *Prescribed scenario 4: rise in interest rates, combined with a market crash*

- Interest rates are set to be 130% of the base scenario or the base scenario rates plus 2%, whichever is greater; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

- *Prescribed scenario 5: high new business growth rates*

High growth throughout the forecast period, with growth rate being 30%, or 150% of plan growth rate if higher, and with a reasonable increase in expenses, consistent with the higher growth.

- *Prescribed scenario 6: low new business growth rates*

Low growth throughout the forecast period, with year 1 sales being 80% of current year, followed by 20% drop for years 2 and 3, without any saving in expenses other than commission and commission-related expenses that are directly related to the new sales volume.

The compound scenarios illustrated in FWD DST are as follows:

- *Compound scenario 1: pandemic outbreak*

Throughout the forecast period, allow for:

- Excess death of 0.75 per 1,000 at all ages in year 1;
- Excess morbidity of 1.50 per 1,000 at all ages in year 1;
- 15% increase in incidence rates for disability , accident and sickness;
- Equity and real estate market value dropped by 25%

- *Compound scenario 2: HKD/USD Spread Widening*

Throughout the forecast period, allow for:

- 1% increase in USD government bond yield;
- Flat HKD bond yield;
- 1.5% increase in inflation assumption;
- Policy holder dividend increased by 15%;
- Universal life credit rate increased by average 0.2%

- *Compound scenario 3: HKD/USD Unpegged*

Throughout the forecast period, allow for:

- USD and SGD depreciated by 10%;
- Equity and real estate value drops by 25%;
- 20% shock lapse of USD policies.

The plausible adverse scenarios illustrated in FWD DST are as follows:

- *Plausible adverse scenario 1: Operational Incidents*

- This is an operational scenario. It happens when an error in unit pricing calculation occurs for Class C and G business that adversely impacts the accuracy of the net asset value, and a business operation disruption, resulting from the system failure for business other than Class C and G.

- *Plausible adverse scenario 2: Counterparty Default Events*

- This is a counterparty default scenario. It happens when an economic recession triggering the defaults of major corporate bond issuers and the reinsurers.

The plausible adverse scenarios illustrated in Sun Life DST are as follows:

- *Plausible adverse scenario 1: Credit spread widening*

This scenario tests the economic impact from a widening of credit spreads triggering the following changes in economic assumptions.

- 150bps increase in credit spread for investment grade bonds.
- 250bps increase in credit spread for non-investment grade bonds.

- *Plausible adverse scenario 2: Credit crises*

This scenario tests a credit crisis triggering the following changes in economic assumptions.

- Short-term rates, medium-term rates and long-term rates increase immediately in 2020 by 1.00%. Interest rates then stay at this shocked level over the projection period.
- Credit spreads of corporate bonds increase immediately in 2020 by 1.00% (rating BBB or above) and 1.25% (below BBB), then stay at this shocked level over the projection period.
- Equity market value drops by 20% in 2020 and then equity continues to grow at the base scenario rate for the following years.
- Public and private bond and mortgage default rates are 500% of the base scenario in 2020 and the same as base scenario for the following years.

- *Plausible adverse scenario 3: USD / HKD non parallel drop*

This scenario tests the economic impact from a non-parallel drop of USD and HKD interest rates. The shocked economic assumptions are the following:

- For USD economics, short-term rates, medium-term rates and long-term rates gradually drop by 1.00% by the end of the first year and then stay 1.00% lower than the base scenario over the remaining projection period.
- For HKD economics, short-term rates, medium-term rates and long-term rates gradually drop by 0.50% by the end of the first year and then stay 0.50% lower than the base scenario over the remaining projection period.
- Credit spreads of corporate bonds gradually increase by 0.50% by the end of the first year and then stay 0.50% higher than the base scenario over the remaining projection period.

- HKD-USD currency swap spread differential adversely changes by 100bps at the end of the first year and then stay at this level over the projection period.
- Equity market value drops by 10% per annum during the projection period.
- Public and private bond and mortgage default rates are 200% of the base scenario over the projection years.

▪ *Plausible adverse scenario 4: Anti-selective policy holder behaviour*

This scenario assumes structural changes in the marketplace leading to some forms of anti-selection against the Company. Therefore, this scenario explores the effects of increased sophistication in the marketplace leading to anti-selective policy holder behavior through the opportunistic exercise of premium payment flexibility, partial withdrawal and voluntary termination of contracts.

- 15% deterioration in mortality rates.
- 15% deterioration in morbidity rates.
- Lapse rates will change +/-25%, depending on which alternative produces the most adverse results by product.
- For Universal Life and linked products, the premium persistency will be set to 75% of base scenario and partial withdrawal turns to 10% in 2019.

▪ *Plausible adverse scenario 5: Operational incidents*

This scenario examines the resilience of the business to operational incidents, particularly for classed C and G business that have a relatively low minimum solvency requirement under the Ordinance. This scenario assumes the following:

- An error was detected after the 2019 year end reporting. In particular, 10% of the account value of Class C and Class G business was recorded and reported by 15% lower than the true account value due to an investment allocation mistake. Consequently, the Company will have to compensate the reduced payments to policy holders to correct the account value and will receive a regulatory fine of HKD 5 million.
- This event has an adverse impact on the Company's reputation, which causes 10% additional lapses for Class C products in first two years and the marketing expense in year 2020 and 2021 are HKD 20 million higher to acquire new business.

▪ *Plausible adverse scenario 6: Flu Pandemic & reinsurer default*

This scenario examines the impact of an outbreak of a worldwide flu pandemic which negatively impacts many insurers' mortality / morbidity claims. Meanwhile reinsurers are severely impacted because of the large amount of quota share reinsurance that has been ceded, which leads to default of some reinsurers. The main assumptions are the following:

-
- The Company experiences higher mortality claims in 2020, in aggregate around 7 per thousand higher mortality rate. Claim experience returns to base in the following period.
 - Critical Illness (CI) and Hospital Income (HI) claim experience in 2020 is also adversely impacted, resulting in negative income impact. The negative income impact is assumed to be 2% of the actual 2019 CI Claims and 25% of the actual 2019 HI claims.
 - This scenario assumes that RGA (the most significant reinsurer for the Company) defaults in 2020, causing 50% of the above excess claims not recovered from RGA. This scenario also assumes that the Company will recapture the ceded business from RGA and find a new reinsurer to cover the recaptured business at the end of 2020. The reinsurance rates for both inforce and future new business continue to be guaranteed but are increased by 20%.

APPENDIX B: KEY STATISTICS AS AT 31 MARCH 2020

Transferring business key statistics

The following tables show the detailed of the Class G long term business of FWD as at 31 December 2019 and as at 31 March 2020.

Class G long term business of FWD			
31 December 2019			
Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF (*)	4,160	863	889
ORSO	72	2,090	2,402
Transferring ORSO Business	68	1,617	1,853
FWD Retained ORSO Business	4	473	549
Total	4,232	2,953	3,291

Class G long term business of FWD			
31 March 2020			
Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF (*)	4,142	837	863
ORSO	72	2,083	2,365
Transferring ORSO Business	68	1,588	1,798
FWD Retained ORSO Business	4	495	567
Total	4,214	2,920	3,228

(*) The number of participating schemes refers to the number of employers while Appendix C lists out the number MPF Class G policies.

Figures may not be additive due to rounding.

As at 31 December 2019, the long term business of FWD comprised 4,160 MPF schemes and 72 ORSO schemes while it comprised 4,142 MPF schemes and 72 ORSO schemes as at 31 March 2020. The amount of net liability of Class G ORSO business has slightly decreased between 31 December 2019 and 31 March 2020 from HK\$ 2,402 million to HK\$ 2,365 million mainly due to a decrease in account balance. The amount of net liability of Class G MPF business has also slightly decreased from HK\$ 889 million as at 31 December 2019 to HK\$ 863 million as at 31 March 2020.

Policy reserves before and after Transfer

The following tables show the Statutory Reserve of the Transferring Business before and after the Transfer using two different valuation dates, i.e. 31 December 2019 and as at 31 March 2020.

HK\$ million 31 December 2019	FWD – Before transfer			Sun Life – After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	863	14	12	863	14	12
Transferring ORSO Business	1,617	159	76	1,617	159	101
Total	2,480	173	88	2,480	173	113

HK\$ million 31 March 2020	FWD – Before transfer			Sun Life – After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	837	25	1	837	25	1
Transferring ORSO Business	1,588	151	59	1,588	151	79
Total	2,424	176	60	2,424	176	80

Figures may not be additive due to rounding.

At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business, in line with the approach described in my Main Report,

- Similar to FWD approach before the Transfer, the minimum GL7 reserve for ORSO business will be split between FWD Retained ORSO Business and the Transferring ORSO Business based on the Account Balance.
- The entire ORSO smoothing reserve, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO Business will be transferred to Sun Life, leading to a higher smoothing reserve for the Transferring Business after the Transfer.

The Table below shows the Statutory Reserve of FWD Retained ORSO Business before and after the Transfer using two different valuation dates, i.e. 31 December 2019 and 31 March 2020.

HK\$ million 31 December 2019	Before transfer			After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	473	51	25	473	51	25

HK\$ million	Before transfer			After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
31 March 2020						
FWD Retained ORSO Business	495	51	20	495	51	20

Financial position

The table below compares free asset ratios before and after the transfer as at 31 December 2019 and as at 31 March 2020.

31 December 2019 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	103,314	82,671
Surplus over solvency margin (B)	6,339	5,072
Free asset ratio (B) / (A)	6.1%	6.1%
31 March 2020 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	109,901	85,679
Surplus over solvency margin (B)	5,928	4,855
Free asset ratio (B) / (A)	5.4%	5.7%

Both FWD and Sun Life free asset ratios have reduced between 31 December 2019 and 31 March 2020 as a result of the recent drop in the financial market. Sun Life free asset ratio is however more stable than FWD's.

The table below compares the solvency ratios as at 31 December 2019, 31 January 2020, 29 February 2020, and 31 March 2020 for both FWD and Sun Life before transfer.

Solvency ratio before transfer	FWD (*)	Sun Life (**)
31 December 2019	321%	266%
31 January 2020	298%	240%
29 February 2020	263%	232%
31 March 2020	193%	265%

(*) The solvency ratios exclude the amount of capital for FWD Malaysia and FWD Vietnam.

(**) The solvency ratios reflect the modified coinsurance signed in August 2016.

FWD's solvency ratio has reduced from 321% as at 31 December 2019 to 193% as at 31 March 2020 as a result of the recent drop in the financial market. Sun Life's solvency ratio has also reduced to a lesser extent but the actual solvency positions of both Sun Life and FWD remain above the minimum regulatory requirement as at 31 March 2020.

Conclusion

I am satisfied that none of the above developments affects the conclusions of either my Main Report or the main sections of my Supplementary Report.

APPENDIX C: THE TRANSFERRING POLICIES AS AT 31 DECEMBER 2019

C.1 List of Class G Policies – MPF Schemes as at 31 December 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

C.2 List of Class G Policies – ORSO Schemes as at 31 December 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
10	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	11000207	27-Jun-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
11	EL Grande Holdings Limited Provident Fund Scheme	15000932	12-May-98	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
12	Fatti Components Limited Employees' Retirement Scheme	11000031	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
13	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	15000214	07-Feb-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
14	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
15	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
16	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
17	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
18	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
19	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
20	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
21	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
22	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
23	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Capital Guaranteed Plan -	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
24	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
25	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
26	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
27	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
28	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
29	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
30	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
31	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
32	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
33	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
34	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
35	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
36	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
37	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
38	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
39	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
40	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
41	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
42	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
43	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
44	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
45	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
46	St. James' Settlement Provident Fund Scheme (1)	110001 17	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
47	Sunny Creations Limited Provident Fund Scheme	110003 54	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
48	Technik Industrial Co. Ltd. Provident Fund Scheme	110002 99	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
49	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	150010 34	12-Jul-11	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
50	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
51	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
52	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
53	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
54	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
55	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
56	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
57	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
58	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
59	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
60	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
61	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
62	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
63	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
64	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
65	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	810001023	24-Oct-11	FWD Capital Guaranteed Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
66	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
67	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-
68	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-

Note: the number of Class G policies has reduced since my Main Report given some policies have been terminated.

IN THE SUPREME COURT OF BERMUDA

(COMMERCIAL COURT)

2020: No.

**IN THE MATTER OF FWD LIFE INSURANCE
COMPANY (BERMUDA) LIMITED**

**AND IN THE MATTER OF SUN LIFE HONG
KONG LIMITED**

**AND IN THE MATTER OF SECTION 25 OF THE
INSURANCE ACT 1978**

PETITION



**APPLEBY (BERMUDA) LIMITED
Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda
206412.0002/JSW/LV**

Attorneys for the Petitioners

SUPREME COURT BERMUDA

2020 SEP 23 PM 4:46

Scheme updated as of 11 September 2020

SCHEME

for the transfer of certain Hong Kong long term business of

FWD Life Insurance Company (Bermuda) Limited

to

Sun Life Hong Kong Limited.

pursuant to sections 24 and 25 of the Insurance Ordinance
(Chapter 41 of the Laws of Hong Kong)

and pursuant to section 25 of the Bermuda Insurance Act 1978

Updated as of 11 September 2020

Baker & McKenzie
14th Floor, One Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

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A. PRELIMINARY

1. DEFINITION

- 1.1 In this Scheme, terms and expressions defined in the Ordinance shall bear the same meanings as defined therein and the following terms and expressions shall bear the meanings specified opposite to them:

Act	the Bermuda Insurance Act 1978;
Appointed Actuary	in respect of FWD or Sun Life, the person who is appointed as its actuary pursuant to section 15(1)(b) of the Ordinance;
Bermuda Court	the Supreme Court of Bermuda;
Bermuda Order	an order by the Bermuda Court (if granted) pursuant to section 25 of the Act (including any subsequent order) sanctioning this Scheme and making further provisions for its implementation;
BMA	the Bermuda Monetary Authority;
Business	the long term business (as defined in the Ordinance) carried out by FWD in respect of the Transferring Policies;
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
Class G Policies	insurance policies in the nature of class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance);
Encumbrance	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;
FWD	FWD Life Insurance Company (Bermuda) Limited, a company incorporated in Bermuda (and registered as a non-Hong Kong company with registered number F0003114) whose principal place of business is at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong;
FWDPT	FWD Pension Trust Limited, a company incorporated in Hong Kong (registered number 0678409), whose registered office is at Room 2506,

	FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong. Its name was changed to SLPT after having been sold by FWD to Sun Life, as described in paragraph 2.10;
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China;
Hong Kong Court	the Court of First Instance of the High Court of Hong Kong;
Hong Kong Order	the order of the Hong Kong Court (if granted) pursuant to sections 24 and 25 of the Ordinance (including any subsequent order) sanctioning this Scheme and making further provisions for its implementation;
Implementation Agreement	the implementation agreement dated 3 August 2016, entered into by, among others, FWD Management Holdings Limited and Sun Life in relation to, inter alia, (i) the sale and purchase of the then FWDPT and (ii) the transfer of all the Transferring Policies from FWD to Sun Life;
Insurance Authority	the Insurance Authority established under the Ordinance;
MPF Schemes	(i) the Sun Life MPF Basic Scheme (永明強積金基本計劃) (formerly known as FWD MPF Master Trust Basic Scheme (富衛強積金集成信託基本計劃)), (ii) the Sun Life MPF Comprehensive Scheme (永明強積金綜合計劃) (formerly known as FWD MPF Master Trust Comprehensive Scheme (富衛強積金集成信託綜合計劃)) and (iii) the Sun Life MPF Master Trust, which are master trust schemes established under the Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong);
New MPF Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the MPF Schemes, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
New ORSO Sub-Funds (Class G)	New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G);

New ORSO Capital Guaranteed Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the <u>guaranteed</u> obligations under the relevant ORSO Scheme, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
New ORSO Non-Guaranteed Sub-Fund (Class G)	a new sub-account to be established and maintained by Sun Life with effect from the Transfer Date under the Sun Life Class G Fund for the Transferring Policies in respect of the non-guaranteed obligations under the relevant ORSO Scheme, such sub-account shall be segregated from other sub-accounts of the Sun Life Class G Fund;
ORSO Schemes	FWD Capital Guaranteed Plan and FWD Multi-Funding Provident Plan;
Ordinance	the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong);
Residual Asset	<p>(i) any property, assets or investment of FWD (including any right, discretion, authority, power or benefit of FWD under or by virtue of any Transferring Policies) and such other property, asset or investment as is attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but in respect of which, as at the Transfer Date, either:</p> <p>(a) the consent of any person or persons (other than FWD, Sun Life, the Hong Kong Court or the Bermuda Court) is required but has not been obtained; or</p> <p>(b) the waiver by any person or persons of any right to acquire, or to be offered the right to, or to offer to, acquire or procure the acquisition of, all or any part of such property or asset is required but has not been obtained; or</p> <p>(c) FWD and Sun Life agree that its transfer should be delayed;</p>

but to the extent only of that part of the interest of FWD in such property or asset the transfer of which such consent and/or waiver is required and/or such agreement is reached;

- (ii) any proceeds of sale or income or other accrual or return whatsoever, whether or not in the form of cash, from time to time earned or received in respect of such property or asset referred to in sub-paragraph (i) of this definition;

Residual Liability

any liability whatsoever of FWD:

- (i) which is attributable to or connected with a Residual Asset and arises at any time before the Subsequent Transfer Date in relation to such Residual Asset; or
- (ii) the transfer of which to Sun Life pursuant to this Scheme requires, as at the Transfer Date, the consent of any person or persons (other than FWD, Sun Life, the Hong Kong Court or the Bermuda Court) or waiver of any person or persons and which is attributable to or connected with the Business but has not been obtained;

Scheme

this scheme in its original form with or subject to any modification or condition which the Hong Kong Court and the Bermuda Court shall approve or impose or any modification made pursuant to paragraph 11.3;

Statutory Records

all books, files, registers, documents, correspondence, papers and other records that are required, by the applicable legal or regulatory requirement or corporate governance (whether or not having the force of law), to be kept by FWD and retained in its possession in respect of the Business;

Subsequent Transfer Date

in relation to any Residual Asset or Residual Liability, the date (falling after the Transfer Date) on which the transfer of such Residual Asset or Residual Liability provided for by this Scheme shall take effect and such Residual Asset or Residual Liability shall vest in Sun Life, being:

- (i) in respect of any Residual Asset falling within sub-paragraph (i)(a) or (b) of the definition thereof; and any Residual Liability, the date on which the requisite consent or requisite waiver to enable the same to be transferred to Sun Life upon the terms of this Scheme are:
 - (a) obtained; or
 - (b) no longer required; or
 - (c) dispensed with by the Hong Kong Court and the Bermuda Court; or
- (ii) in respect of any Residual Asset falling within sub-paragraph (i)(c) of the definition thereof, the date on which FWD and Sun Life agree that the transfer should take effect; or
- (iii) in respect of any Residual Asset falling within sub-paragraph (ii) of the definition thereof, the date on which such Residual Asset is received or earned by FWD;

Sun Life	Sun Life Hong Kong Limited, a company incorporated in Bermuda (and registered as a non-Hong Kong company with registered number F0003725) whose registered office is at 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong;
Sun Life Class G Fund	the account maintained by Sun Life in respect of its class G (retirement scheme management category I) long term business (as defined in sections 2(1) and 3 of the Ordinance) pursuant to section 22 (1)(a) of the Ordinance;
SLPT	Sun Life Pension Trust Limited, the new name of FWDPT after it was sold by FWD to Sun Life, as described in paragraph 2.10;
Transfer Date	the time and date on which this Scheme shall become effective in accordance with paragraph 10 of this Scheme;
Transferring Assets	the property, assets or investment of FWD (including any right, discretion, authority, power or benefit of FWD under or by virtue of any Transferring Policies) as are attributable to the Business, wherever situated, which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but do not include the Residual Assets;

Transferring Liabilities

all liabilities of FWD as at the Transfer Date attributable to the Business including, without limitation, the liabilities and obligations (whether present, future or contingent) under and in relation to the Transferring Policies (including, without limitation, the guarantee obligations thereunder) which shall be transferred to Sun Life on or around the Transfer Date pursuant to and under the Implementation Agreement, but do not include the Residual Liabilities; and

Transferring Policies

all Class G Policies underwritten in or from Hong Kong by FWD under and in respect of the MPF Schemes and ORSO Schemes as at the Transfer Date, as detailed in the Schedule hereto, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements in connection therewith. For the avoidance of doubt, the policies in respect of FWD's staff plan and agency plans, namely the FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, Long Service Incentive Scheme, Long Service Bonus Scheme and VNB Fund Scheme, are not included in this Scheme.

1.2 In this Scheme, any reference to:

- (a) a "class" shall be to a class of long term or general business specified in Part 2 or Part 3 (as the case may be) of the Schedule 1 to the Ordinance;
- (b) the term "property" includes (without limitation) property, assets, rights (whether present, future, vested or contingent), discretions, authorities, benefits and powers of every description;
- (c) the term "liabilities" includes (without limitation) duties and obligations of every description (whether present, future or contingent); and
- (d) "including" or "includes" means including or includes without limitation.

1.3 Any reference to the singular includes a reference to the plural and vice versa.

1.4 Unless otherwise specified, any reference to any act, statute, ordinance or regulation shall be to such act, statute, ordinance or regulation as amended from time to time.

B. INTRODUCTION

2. FWD AND SUN LIFE

- 2.1 FWD was incorporated in Bermuda on 13 April 1977, under the name of Rauco Insurance Company Limited. FWD is part of the FWD Group, which is the insurance business arm of investment group, Pacific Century Group, with minority shareholders, including Swiss Re Group. Pacific Century Group acquired ING Groep N.V.'s life insurance business (including FWD) in March 2013 and established the brand FWD in August 2013. FWD is currently an indirect wholly-owned subsidiary of FWD Limited through intermediate holding companies.

FWD has an issued share capital of US\$830,200,000 as of the financial year ended on 31 December 2019.

- 2.2 The principal business of FWD is the carrying on of long term business in Hong Kong. FWD is regulated in Bermuda by the BMA and has a class E and a class 3 licence under the Act.
- 2.3 FWD is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance. FWD is authorized by the Insurance Authority under the Ordinance to carry on long-term business of class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I) and class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. The principal place of business of FWD in Hong Kong is 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong.
- 2.4 As part of its long term business, FWD carries on retirement fund business in Hong Kong, which includes both the MPF Schemes and ORSO Schemes. Prior to the sale of FWDPT as described in paragraph 2.10 below, FWD owned 20% of its issued share capital and was the trustee of the MPF Schemes. Each of the MPF Schemes and ORSO Schemes invests in one or more of the Transferring Policies issued by FWD. As at 31 December 2019, the Business of FWD consisted of 71 Transferring Policies, as detailed in the Schedule hereto.
- 2.5 Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life is wholly-owned by Sun Life Assurance Company of Canada, a company incorporated in Canada. Sun Life has an issued share capital of HK\$3.527 billion as of 31 December 2019.
- 2.6 The principal business of Sun Life is the carrying on of long term business in Hong Kong. Sun Life is regulated in Bermuda by the BMA and has a class E licence under the Act.
- 2.7 Sun Life is registered in Hong Kong as a non-Hong Kong company under the Companies Ordinance. Sun Life is authorized by the Insurance Authority under the Ordinance to carry on long-term business of class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I), class H (retirement scheme management category II) and class I (retirement scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance in or from Hong Kong. The registered office of Sun Life in Hong Kong is 16/F, Cheung Kei Center Tower A, 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong.
- 2.8 As at 31 December 2019, Sun Life had 80 Class G Policies issued and maintained for its MPF scheme and various ORSO schemes in Hong Kong.
- 2.9 On 3 August 2016, FWD Management Holdings Limited (being a part of the FWD Group) and Sun Life entered into the Implementation Agreement in relation to the disposal of FWD's MPF and ORSO businesses in Hong Kong.
- 2.10 The disposal includes, inter alia, (i) the sale of the shareholding of the then FWDPT, the trustee of certain MPF Schemes (i.e., the then FWD MPF Master Trust Basic Scheme and FWD MPF Master Trust Comprehensive Scheme, which were renamed respectively as Sun Life MPF Basic Scheme and Sun Life MPF Comprehensive Scheme), to Sun Life (and its nominees); and (ii) the transfer from FWD to Sun Life the Class G Policies underlying the MPF Schemes and ORSO Schemes. The sale of the then FWDPT had been completed on the first completion date, 3 October 2017, and the name of FWDPT was subsequently changed to SLPT.
- 2.11 The transfer of the Business is therefore part of the transaction contemplated under the Implementation Agreement.

- 2.12 The purpose of this Scheme is to transfer the Business from FWD to Sun Life pursuant to (i) sections 24 and 25(1) of the Ordinance; and (ii) section 25 of the Act. Under the Implementation Agreement, in respect of the Transferring Policies, FWD Management Holdings Limited agreed to transfer to Sun Life (and/or its nominee(s)) cash and/or the legal and beneficial title in "eligible assets" with a "fair market value" equal to FWD's estimate of the class G required provisions (which shall include the provision for account balance, the provision for investment guarantee and the provision for the smoothing of investment returns) as at 12:01 a.m. (Hong Kong time) of the second completion date of the Implementation Agreement, in accordance with the terms of the Implementation Agreement.
- 2.13 It is proposed by FWD and Sun Life that applications shall be made to the Hong Kong Court and the Bermuda Court under section 24 of the Ordinance and section 25 of the Act, respectively, such that the Business shall be transferred from FWD to Sun Life in accordance with the terms of this Scheme and subject to the Hong Kong Order made pursuant to sections 24 and section 25(1) of the Ordinance and the Bermuda Order made pursuant to section 25 of the Act.
- 2.14 The transfer contemplated under this Scheme will not proceed unless this Scheme is sanctioned by the Hong Kong Order and the Bermuda Order.

C. THE TRANSFER PROVISIONS

3. TRANSFER OF ASSETS

- 3.1 On and with effect from the Transfer Date, the Transferring Assets shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof.
- 3.2 On and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument, be transferred by FWD to, and vested in, Sun Life subject to any Encumbrances in respect thereof.
- 3.3 If:
- (1) any property or asset of FWD, which would otherwise fall within the definition of Transferring Assets, is not, or is not capable of being, immediately transferred to and effectively vested in Sun Life on the Transfer Date by the Hong Kong Order and the Bermuda Order by reason of:
 - (i) such property or asset being a Residual Asset; or
 - (ii) the transfer of such property or asset being outside the jurisdiction of the Hong Kong Court or the Bermuda Court; or
 - (iii) for any other reason; or
 - (2) the transfer of any property or asset which falls within the definition of Transferring Assets but which is situated outside the jurisdiction of the Hong Kong Court or the Bermuda Court and is not recognised by the laws of the jurisdiction in which such property or asset is situated,

FWD shall, on and with effect from the Transfer Date, hold any property or asset referred to in sub-paragraphs (1) or (2) above, as trustee and in trust for Sun Life absolutely and shall be

subject to Sun Life's directions in respect thereof until the relevant property or asset is transferred to or otherwise vested in Sun Life or is disposed of (whereupon FWD shall account to Sun Life for the proceeds of sale thereof), and Sun Life shall have authority to act as the attorney of FWD in respect of such property or asset for all such purposes.

- 3.4 Sun Life shall accept without investigation or requisition such title as FWD shall have at the Transfer Date to each Transferring Asset and at each Subsequent Transfer Date to the Residual Asset then transferred.
- 3.5 FWD and Sun Life 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, Sun Life of any Transferring Asset or Residual Asset.

4. TRANSFER OF LIABILITIES

- 4.1 On and with effect from the Transfer Date, each Transferring Liability shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume, any liability in respect of such Transferring Liability.
- 4.2 On and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by virtue of the Hong Kong Order and the Bermuda Order and without any further act or instrument and without investigation or requisition, be transferred by FWD to, and become a liability of, Sun Life with the effect that FWD shall be entirely released from and Sun Life shall assume any liability in respect of such Residual Liability.
- 4.3 If:
 - (1) any obligation or liability of FWD which would otherwise fall within the definition of Transferring Liabilities is not, or is not capable of being, immediately transferred and effectively vested in Sun Life on the Transfer Date by the Hong Kong Order and the Bermuda Order by reason of:
 - (i) such obligation or liability being a Residual Liability; or
 - (ii) the transfer of such obligation or liability being outside the jurisdiction of the Hong Kong Court or the Bermuda Court; or
 - (iii) for any other reason; or
 - (2) the transfer of any obligation or liability which falls within the definition of Transferring Liabilities but is governed by the law of a jurisdiction other than Hong Kong or Bermuda and is not recognised by the laws of the jurisdiction which govern such obligation or liability,

then Sun Life shall from and after the Transfer Date perform any such obligation or satisfy any such liability as referred to in sub-paragraphs (1) or (2) above on behalf of FWD, or failing that, indemnify FWD against such obligation and liability.

- 4.4 FWD and Sun Life 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, Sun Life of any Transferring Liability or any Residual Liability.

5. TRANSFER OF TRANSFERRING POLICIES

- 5.1 On and with effect from the Transfer Date, Sun Life shall become entitled to all of the rights and powers of FWD under, or by virtue of, the Transferring Policies. The Transferring Policies shall on and with effect from the Transfer Date form part of Sun Life's long term business carried on in or from Hong Kong.
- 5.2 On and with effect from the Transfer Date, all rights and powers against FWD available to the policy holder of every Transferring Policy shall cease and shall be substituted by the same rights and powers against Sun Life. On the Transfer Date, all Statutory Records and other information relating to the policy holders, 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 (Chapter 486 of the Laws of Hong Kong)) of such policy holders, insureds, beneficiaries, assignees and other persons, which is held by FWD shall be transferred to Sun Life, and Sun Life shall have the same rights and powers in holding and using (and transferring) such information as those of FWD prior to the Transfer Date.
- 5.3 In respect of the Transferring Policies under which premiums continue to be payable, the policy holders of the Transferring Policies shall account to Sun Life for any further premiums as and when they become due. Sun Life 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 FWD prior to the transfer.
- 5.4 Sun Life 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 Sun Life and not FWD had issued the Transferring Policies.
- 5.5 All terms and conditions of the Transferring Policies (including application forms, illustrative documents, principal brochures, riders, schedules and declarations) shall remain unchanged save that, on and with effect from the Transfer Date, all references in the Transferring Policies to FWD, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents shall be read as reference to Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be); and any reference to "FWD" in the names of the Transferring Policies will be changed to "Sun Life". In particular, but without limitation, all rights and duties exercisable or expressed to be exercisable or responsibilities to be performed by FWD, 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 Sun Life, its Board of Directors, Appointed Actuary, offices, auditors and any other officers and employees or agents (as the case may be).

6. CONTINUATION OF LEGAL PROCEEDINGS

- 6.1 By virtue of the Hong Kong Order and the Bermuda Order, on and with effect from the Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Transferring Policies, Transferring Assets or Transferring Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

- 6.2 By virtue of the Hong Kong Order and the Bermuda Order, on and with effect from the applicable Subsequent Transfer Date, any judicial, quasi-judicial, disciplinary, administrative, arbitration or legal proceedings or complaints (whether current, pending, threatened or in contemplation) by or against FWD in relation to the Residual Assets or Residual Liabilities shall be deemed to have been continued by or against Sun Life in substitution for FWD and Sun Life shall be entitled to the same defences, claims, counterclaims and rights of set-off as FWD in respect thereof.

D. THE NEW INSURANCE FUNDS BY SUN LIFE

7. THE NEW SUN LIFE INSURANCE FUNDS

Establishment of New Sun Life Insurance Funds

- 7.1 Effective from the Transfer Date, Sun Life shall establish three new sub-funds under the Class G Fund, namely New MPF Sub-Fund (Class G), New ORSO Capital Guaranteed Sub-Fund (Class G) and New ORSO Non-Guaranteed Sub-Fund (Class G). They shall be maintained by Sun Life as separate sub-accounts under the Sun Life Class G Fund.

Allocation of Policies, Assets and Liabilities

- 7.2 On and with effect from the Transfer Date, all Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); and all Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).
- 7.3 On and with effect from the Transfer Date, all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall be allocated to and become part of the New MPF Sub-Fund (Class G); all Transferring Assets which are maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall be allocated to and become part of the New ORSO Sub-Funds (Class G).
- 7.4 Each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the MPF Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G); and each Residual Asset which is maintained by FWD for the Transferring Policies in respect of the ORSO Schemes shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New ORSO Sub-Funds (Class G).
- 7.5 All beneficial interest in any property, assets or investments held on trust by FWD for Sun Life pursuant to paragraph 3.3 above shall be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be) to which such property, assets or investments would have been allocated had it constituted a Transferring Asset.
- 7.6 On and with effect from the Transfer Date, all Transferring Liabilities of FWD which are attributable to the Transferring Policies shall be allocated to and become part of the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be).
- 7.7 Each Residual Liability of FWD which is attributable to the Transferring Policies shall, on and with effect from the applicable Subsequent Transfer Date, be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be).

- 7.8 All liabilities which are required to be satisfied by Sun Life pursuant to paragraph 4.3 above shall be allocated to the New MPF Sub-Fund (Class G) or the New ORSO Sub-Funds (Class G) (as the case may be) to which such liabilities would have been allocated had it constituted a Transferring Liability.

E. MISCELLANEOUS PROVISIONS

8. PREMIUMS AND MANDATES

- 8.1 All premiums, loan repayments (if any, and interest thereon) and other amounts received or receivable by FWD in respect of any of the Transferring Policies on or after the Transfer Date shall be payable to Sun Life after the Transfer Date.
- 8.2 Sun Life shall be irrevocably authorized to endorse for payment any cheques, drafts, orders, postal orders or other instruments payable to, or to the order of, FWD and received by Sun Life in respect of premiums paid or loan repayments (if any) under the Transferring Policies on or after the Transfer Date.
- 8.3 Sun Life shall have the sole responsibility for billing and collecting premiums and paying all applicable taxes in respect of premiums received under the Transferring Policies on or after the Transfer Date.
- 8.4 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 FWD 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 Sun Life.

9. COSTS

FWD and Sun Life shall, out of their respective shareholders' funds, pay in equal share all costs in relation to the preparation of this Scheme and of its presentation to the Hong Kong Court and the Bermuda Court respectively for sanction and all other professional fees related thereto. None of such costs shall be borne by the funds maintained by FWD or Sun Life pursuant to the Ordinance in respect of their respective long term business, the Transferring Policies or other policies of FWD or Sun Life, or the policy holders thereof.

10. TRANSFER DATE

- 10.1 This Scheme shall become effective at 12:01 a.m. hours (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the Hong Kong Order and the Bermuda Order are granted, in each case sanctioning this Scheme. Subject to the grants of the Hong Kong Order and Bermuda Order, it is expected that the Scheme will take effect on 1 December 2020 but it may be subject to change.
- 10.2 Unless this Scheme shall become effective on or before 90 days after the later of the dates on which the Hong Kong Order and the Bermuda Order are granted, or such later date and/or time, if any, as FWD and Sun Life may decide and the Hong Kong Court and the Bermuda Court may allow, it shall lapse.

11. MODIFICATION

- 11.1 Subject to paragraph 11.3, FWD and Sun Life may apply to the Hong Kong Court and the Bermuda Court for consent to modify, vary or amend the terms of this Scheme, provided that:

- (a) the proposed modification, variation or amendment has been approved by the respective Appointed Actuaries and board of directors of both FWD and Sun Life;
 - (b) the Insurance Authority and the BMA have been notified of, and have the right to be heard at any hearing of the court at which such application is considered. In the case of the Insurance Authority, 3 months' prior written notice shall be given; and
 - (c) such application shall be accompanied by a report from an independent actuary to the effect that in his opinion, the proposed modification, variation or amendment will not materially and adversely affect the reasonable benefit expectations of, the financial security of or the level of service to the policy holders of the Transferring Policies, the policy holders of the non-transferring policies of FWD, or the existing policy holders of Sun Life.
- 11.2 Subject to paragraph 11.3, the terms of this Scheme shall be modified, varied or amended in accordance with such sanction as may be given by the Hong Kong Court and the Bermuda Court under paragraph 11.1.
- 11.3 The sanction of the Hong Kong Court and the Bermuda Court shall not be required in relation to:
- (a) modification(s), variation(s) or amendment(s) to correct manifest error(s) of this Scheme; or
 - (b) when the modification(s), variation(s) or amendment(s) is/are reasonably considered by FWD and Sun Life to be necessary to ensure that the provisions of this Scheme operate in the intended manner where there is a change in the relevant laws or regulations;

provided that the Insurance Authority and the BMA have been notified of the same and has indicated that they do not object thereto.

12. GOVERNING LAW

This Scheme shall be governed by the laws of Hong Kong subject to any procedural issues in connection with the Petition under section 25 of the Act being governed by Bermuda law.

The Schedule

The Transferring Policies as of 31 December 2019

List of Class G Policies – MPF Schemes

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

List of Class G Policies – ORSO Schemes

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan
10	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	11000207	27-Jun-95	FWD Multi-Funding Provident Plan
11	EL Grande Holdings Limited Provident Fund Scheme	15000932	12-May-98	FWD Multi-Funding Provident Plan
12	Fatti Components Limited Employees' Retirement Scheme	11000031	25-May-95	FWD Capital Guaranteed Plan
13	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	15000214	07-Feb-06	FWD Multi-Funding Provident Plan
14	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan
15	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan
16	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan
17	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan
18	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan
19	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan
20	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan
21	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan
22	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan
23	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
24	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan
25	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan
26	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan
27	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan
28	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan
29	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan
30	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan
31	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan
32	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan
33	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan
34	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan
35	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan
36	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan
37	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan
38	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
39	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan
40	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan
41	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan
42	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi-Funding Provident Plan
43	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan
44	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan
45	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan
46	St. James' Settlement Provident Fund Scheme (1)	11000117	07-Sep-95	FWD Capital Guaranteed Plan
47	Sunny Creations Limited Provident Fund Scheme	11000354	25-May-95	FWD Capital Guaranteed Plan
48	Technik Industrial Co. Ltd. Provident Fund Scheme	11000299	28-Apr-95	FWD Multi-Funding Provident Plan
49	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	15001034	12-Jul-11	FWD Multi-Funding Provident Plan
50	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan
51	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan
52	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan
53	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
54	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan
55	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan
56	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan
57	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan
58	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan
59	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan
60	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan
61	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan
62	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan
63	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan
64	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan
65	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	810001023	24-Oct-11	FWD Capital Guaranteed Plan
66	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme
67	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)
68	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)

Independent Actuary's Report
dated 26 June 2019

**Report of the Independent
Actuary on the transfer of certain
Class G insurance policies
underlying the FWD MPF and
ORSO business from FWD Life
Insurance Company (Bermuda)
Limited to Sun Life Hong Kong
Limited**

Prepared for:

**FWD Life Insurance Company (Bermuda) Limited
Sun Life Hong Kong Limited**

Prepared by:

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Independent Actuary's Statement of Opinion

I, Clement Bonnet, am a Principal and Consulting Actuary of Milliman Limited ("Milliman"). I am a Fellow of the French Institute of Actuaries, and a Fellow member of the Actuarial Society of Hong Kong. I have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41, and as the Approved Actuary ("Approved Actuary") pursuant to Section 25 of the Bermuda Insurance Act 1978 ("Act"), to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of certain Class G long term policies underlying the mandatory provident funds ("MPF") business and occupational retirement ("ORSO") business from FWD Life Insurance Company (Bermuda) Limited ("FWD") to Sun Life Hong Kong Limited ("Sun Life"). Throughout this report FWD and Sun Life are collectively referred to as the "Parties" and the trustees or employers taking out these Class G insurance policies (a list of which is set out in Appendix G, the "Transferring Policies") are collectively referred to herein as the "Transferring Policy holders".

The rationale behind this transfer is to allow Sun Life to acquire the pension business from FWD, expanding Sun Life's presence in Asian Wealth Management space in a low capital and fee-based business, and adding scale to Sun Life existing pension business resulting in a reduction of expenses per member.

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 Parties.

The scope of my review and opinions are confined to the effects of the Scheme on the long term policy holders of the Parties. In particular, I have formed my view by considering:

- the effect of the Scheme on the financial security of the contractual benefits of the long term policy holders of FWD and Sun Life;
- the effect of the Scheme on the reasonable benefit expectations of the long term policy holders of FWD and Sun Life;
- the effect of the Scheme on the level of service to the long term policy holders of FWD and Sun Life; and
- the adequacy of safeguards in the Scheme to ensure that the Scheme operates as presented.

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

In my opinion,

- The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
- The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
- The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
- I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Clement Bonnet
Independent Actuary
26 June 2019



Section 1 Introduction

The Independent Actuary

- 1.1. When an application is made to the High Court of the Hong Kong Special Administrative Region, Court of First Instance (the “Hong Kong Court”) for an order to sanction the transfer of long term insurance business from one insurer to another, it must be accompanied by a report on the terms of the Scheme by an independent actuary in conformance to Section 24 of the Insurance Ordinance, Chapter 41 of the Laws of Hong Kong (the “Ordinance”).
- 1.2. Similarly, when an application is made to the Supreme Court of Bermuda (the “Bermuda Court”) for an order to sanction a transfer of long term insurance business, it must be accompanied by a report on the terms of the Scheme by an Approved Actuary in conformance to Section 25 of the Bermuda Insurance Act 1978.
- 1.3. I have been appointed by both FWD Life Insurance Company (Bermuda) Limited (“FWD”) and Sun Life Hong Kong Limited (“Sun Life”) as the Independent Actuary in connection with the proposed scheme of transfer (the “Scheme”) of certain long term pension business from FWD to Sun Life. The long term business involved is referred to as the “Transferring Business” and comprises the Class G insurance policies, excluding the five internal retirement plans for FWD agents and staff which will remain with FWD (namely: Long Service Incentive Scheme (“LSIS”), Long Service Bonus Scheme (“LSBS”), VNB Fund Scheme, Victory Fund Scheme and FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, collectively called “FWD Retained ORSO Business”), written by FWD before the Transfer Date. The Class G policies are currently issued to trustees or employers of mandatory provident funds (“MPF”) schemes and occupational retirement (“ORSO”) schemes. The trustees or employers taking out these Class G insurance policies are collectively referred to herein as the “Transferring Policy holders”. FWD and Sun Life are collectively referred to herein as the “Parties”.
- 1.4. My appointment as the Independent Actuary has been noted by the Hong Kong Insurance Authority (“HK IA”) and the Bermuda Monetary Authority (“BMA”).

Scope of my report

- 1.5. This report considers the effects of the Scheme on the long term policy holders of FWD and Sun Life. It does not assess the impact of the Scheme on the shareholders of either company.
- 1.6. I have considered the Scheme as presented to me and have not considered other possible alternative schemes of transfer.
- 1.7. In reporting on the Scheme I owe a duty to the Hong Kong Court and the Bermuda Court to help them 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.
- 1.8. In preparing the report, I consulted the HK IA on the required contents and incorporated suggestions from the HK IA as appropriate.

- 1.9. My report has been prepared in accordance with the approach and expectations in the section 2 paragraphs 31 to 41 of the Prudential Regulation Authority (“PRA”) Handbook, as set out in “The Prudential Regulation Authority’s approach to insurance business transfers” dated April 2015 (the “PRA Statement of Policy”), and enclosed as Appendix C to this report. I have also referred to Chapter 18 of the Supervision Manual (“SUP 18”) contained in the Financial Conduct Authority (“FCA”) Handbook. Subsections SUP18.2.31G to SUP18.2.41G, which provide guidelines on the form of the independent expert scheme report required in the UK, are enclosed as Appendix D to this report. In addition, I have had regard to Guidance Note 15 (“GN 15”) issued by the Institute of Actuaries which is enclosed as Appendix E, which was withdrawn in the UK and replaced by the aforementioned section of the FCA Handbook. GN15 is no longer in-force but this is taken as reference as the courts in Hong Kong have taken this guidance note into account in previous Section 24 portfolio transfers. I have also used Section 25 of the Bermuda Insurance Act 1978 as a reference basis.
- 1.10. In May 2018, the FCA published final guidance on its approach to the review of Part VII insurance business transfers (“FG18/4: The FCA’s approach to the review of Part VII insurance business transfers”). I have had regard to this guidance when preparing this report.
- 1.11. I have been provided with free access to the information that I requested as necessary to conduct my work. The key documents that have been made available to me include the Scheme, the Reports of the Appointed Actuaries of the Parties (the “Appointed Actuaries”) on the Scheme, statutory reserve reports, crediting rates and investment policies, financial projections before and after the Scheme implementation and information related to management of the Parties. Appendix B of this report shows the main items of information and documents provided. In addition, I have also been given unrestricted access to and held discussions with various representatives of the Parties.
- 1.12. I have considered the following areas when forming my opinion in this report:
- the effect of the Scheme on the financial security of the contractual benefits of the long term policy holders of FWD and Sun Life;
 - the effect of the Scheme on the reasonable benefit expectations of the long term policy holders of FWD and Sun Life;
 - the effect of the Scheme on the level of service to the long term policy holders of FWD and Sun Life; and
 - the adequacy of safeguards in the Scheme to ensure that the Scheme operates as presented.
- 1.13. The report should be read together with the full terms of the Scheme.

Qualifications and Disclosures

- 1.14. I am a Fellow member of the Actuarial Society of Hong Kong and a Fellow member of the French Institute of Actuaries.

- 1.15. I am a Principal and Consulting Actuary of Milliman Limited, residing of 3901-02, AIA Tower, 183 Electric Road, North Point, Hong Kong ("Milliman"). I have been based in Hong Kong since 2012. I consider my knowledge and experience, which includes the familiarity with the types of long term business written by the Parties involved, as well as my experience with previous Section 24 portfolio transfers, to be suitable and relevant in accepting the appointment as the Independent Actuary for the Scheme.
- 1.16. I am not a shareholder in FWD Limited or any of its subsidiaries. I hold no individual life insurance policies with any of the companies within FWD Group nor am I a member of any FWD Group insurance scheme. I have no other financial interest in FWD Limited. I am not a shareholder in Sun Life Financial Inc. or any of its subsidiaries. I hold no individual life insurance policies with any of the companies within Sun Life Financial Inc. nor am I a member of any Sun Life Financial Inc. insurance scheme. I have no other financial interest in Sun Life Financial Inc.. Moreover, my compensation related to this appointment is independent of the outcome of the Scheme.

Reliances

- 1.17. In preparing my report, I have had access to documentary evidence provided by the Parties, the key elements of which are listed in Appendix B. I have also relied on the Appointed Actuaries and other members of the senior management team of FWD and Sun Life for information about the operations of FWD and Sun Life. In this report I have specifically attributed certain statements to such persons, and I have relied upon the accuracy of those (and other statements) made to me.
- 1.18. In coming to my conclusions, I have relied upon the accuracy of the information which has been provided to me in written or oral form, without independent verification. However, much of the key information has been subject to audit without any audit issue (e.g. balance sheet and statutory reserves, including the entire process from data inputs to model to the production of final results) or other external scrutiny, and I have had the opportunity to challenge any apparent inconsistencies in the information provided.
- 1.19. No attempt has been taken to independently review the calculations provided to me and I explicitly rely on the Appointed Actuaries and the Parties that all the calculations used in relation to the Scheme are appropriate and accurate as presented.
- 1.20. I have received a copy of legal advice provided to FWD management in respect of certain matters and have discussed that advice with FWD. I am not qualified to express opinions on matters of a legal nature. I have therefore made specific reference to such advice where appropriate, and I have relied upon that advice.

Limitations

- 1.21. This report has been prepared on the basis as set out in the report and its appendices.
- 1.22. This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. I have provided a summary of my report (the "Summary Report") for

- inclusion in the policy holder circular and, other than this, no summary of my report may be made without my express consent.
- 1.23. This report has been prepared by Milliman on an agreed basis for the Parties in the context of the Scheme and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of my report for a purpose for which it was not intended nor for the results of any misunderstanding by any user of any aspect of the report.
- 1.24. Other than as set out below, this report is not meant for use by any third party to do or omit to do anything and no third party should place any reliance on the report for that reason. This report and the opinions and conclusions contained herein are for the internal use of the management of the Parties, their professional advisors, their shareholders, their policy holders, regulators, and in court. With the exception of the limited distribution and disclosure of the report specified in paragraph 1.26 and 1.27, the report and any written or oral information or advice provided by me or Milliman must not be reproduced, distributed or communicated in whole or in part to any other person, or be relied upon by any other person except with the written consent of me and Milliman.
- 1.25. If the Parties wish to release a copy of the report to third parties or advisors, except as described in section 10 of this report, these parties must sign a disclaimer and release letter in the form approved by Milliman setting out the terms under which the information is provided and acknowledging that neither Milliman nor I assume any responsibility, liability or duty of care to them. If the Parties wish to disclose extracts from the report in documents, Milliman and I need to give prior written consent to the proposed wording.
- 1.26. In accordance with Section 24 of the Ordinance, in respect of a sanction of the Hong Kong Court for the transfer of long term business, the exceptions referred to above include:
- a copy of the report will be provided to the HK IA;
 - a copy of the report will be available for inspection at the premises in Hong Kong of the Parties concerned for a period of not less than 21 days subsequent publishing a notice in the Government of the Hong Kong Special Administrative Region Gazette and in an approved English language newspaper and an approved Chinese language newspaper in Hong Kong in connection with the Scheme; and
 - a copy of the report will be made available to any person asking for one, provided that the request is made prior to an order for sanctioning the Scheme.
 - A copy of the report will be available from the corporate website of both Sun Life and FWD.
- 1.27. In accordance with Section 25 of the Act, in respect of a sanction of the Bermuda Court for the transfer of long term business, the exceptions referred to above include:
- a copy of the report will be provided to the BMA;
 - a copy of the report will be available for inspection at the premises of the Parties concerned for a period of not less than 21 days subsequent publishing a notice in the Royal Gazette in Bermuda in connection with the Scheme; and

- a copy of the report will be made available to any person asking for one, provided that the request is made prior to an order for sanctioning the Scheme.

- 1.28. The use of Milliman's name, trademarks or service marks, or reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, websites or business presentations is not authorised without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.
- 1.29. This report was based on data available to me and Milliman at, or prior to 26 June 2019, and takes no account of developments after that date. Neither I nor Milliman is under any obligation to update or correct inaccuracies which may become apparent in the report.
- 1.30. This report does not provide financial or other advice to individual policy holders.

Limits of liability and legal jurisdiction

- 1.31. This report is subject to the terms and limitations, including limitation of liability and legal jurisdiction, set out in the Engagement Letter.

Section 2 The Parties to the Scheme

FWD

- 2.1. FWD Life Insurance Company (Bermuda) Limited ("FWD") is a wholly-owned subsidiary of FWD Limited Pacific Century Group acquired the company from ING Groep N.V. and renamed it to FWD Life Insurance Company (Bermuda) Limited in 2013.
- 2.2. FWD is licensed as a Class E and Class 3 insurance company under the Bermuda Insurance Act 1978, with its principal activity being to carry on long term insurance and retirement business.
- 2.3. FWD is currently authorised to underwrite a variety of long term insurance business in Hong Kong, including Classes A (Life and Annuity), C (Linked long term), D (Permanent health), G (Retirement Scheme management category I) and I (Retirement Scheme management category III), in Part 2 of the Schedule 1 to the Ordinance.
- 2.4. As at 31 December 2018, 257.2 million ordinary shares and 246,500 preference shares were issued with total share capital at US\$ 503,700,000.
- 2.5. Based on the audited accounts for the year ended 2018, under the Hong Kong Financial Reporting Standard basis ("HKFRS"), FWD had assets of HK\$96,796 million and total liabilities of HK\$90,348 million. Profit for the year was HK\$1,812 million compared to a loss of HK\$400 million in 2017.
- 2.6. For Hong Kong tax purpose, FWD has elected to be assessed on a profit tax basis for all lines of business, including Class G business.

Sun Life

- 2.7. Sun Life in this report refers to Sun Life Hong Kong Limited. It is a wholly owned subsidiary of Sun Life Financial of Canada, following the acquisition from Commonwealth Bank of Australia in October 2005. Sun Life then acquired the long term business from Sun Life Financial (Hong Kong) Limited on 1 October 2006.
- 2.8. Sun Life was incorporated in Bermuda on 15 October 1985. Sun Life was authorized by the HK IA to transact long term business in or from Hong Kong as at 15 April 1987.
- 2.9. As at 31 December 2018, Sun Life had share capital of HK\$3,527 million.

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- 2.10. Sun Life is currently authorised to underwrite various long term insurance businesses in Hong Kong, including Classes A (Life and Annuity, with effect from 15 April 1987) , C (Linked long term, with effect from 7 November 2000), D (Permanent health, with effect from 15 April 1987), G (Retirement Scheme management category I, with effect from 31 May 1995), H (Retirement Scheme management category II, with effect from 31 May 1995) and I (Retirement Scheme management category III, with effect from 31 May 1995), as set out in Part 2 of the Schedule 1 to the Ordinance.
- 2.11. Based on the audited accounts for the year ended 2018, under the HKFRS basis, Sun Life had assets of HK\$70,143 million and total liabilities of HK\$63,900 million. Profit for the year was HK\$274 million compared to a net profit of HK\$477 million in 2017.
- 2.12. For Hong Kong tax purpose, Sun Life has elected to be assessed on a tax basis for Class A and Class C lines of business where the assessable profits are deemed to be 5% of the premiums while the tax basis for Class G, Class H and Class I lines of business is directly based on profits.

Section 3 Existing Business and Fund Structures

FWD

Overview

- 3.1. FWD is authorised to carry on long term business in Hong Kong categorised as Class A (Life and Annuity), Class C (Linked long term), Class D (Permanent health), Class G (Retirement Scheme management category I) and Class I (Retirement Scheme management category III) as set out in Part 2 of the Schedule 1 to the Ordinance.

Fund structure

- 3.2. FWD operates on the following fund structure:
- FWD Long Term Fund;
 - FWD Retirement Fund; and
 - FWD Shareholders' Fund.
- 3.3. FWD writes and administers its current long term fund and retirement fund in considering different sub-funds as shown in the table below:

FWD fund structure before transfer	
Fund	Sub-fund
Long Term Fund	Traditional Life Fund (Class A)
	MaxFocus Fund I (Class A)
	MaxFocus Fund II (Class A)
	MaxFocus Fund III (Class A)
	MaxFocus Fund IV (Class A)
	Crisis XDefender Fund (Class A)
	Wealth ICON Fund (Class A)
	Universal Life Fund (Class A)
	Universal Life 2 Fund (Class A)
	Universal Life 2.1 Fund (Class A)
	Unit Linked Fund (Class C)
	Permanent Health Fund (Class D)
Retirement Fund	Group Life Fund (Class I)
	ORSO Non-Guaranteed Fund (Class G)
	ORSO Capital Guaranteed Fund (Class G)
MPF Capital Guaranteed Portfolio (Class G)	
Shareholders' Fund	

(*) Assets backing different classes of business are segregated. Assets within a same class of business are not segregated but separate accounts exist to track the performance separately.

Sub-fund	Scheme / Plan
ORSO Non-Guaranteed Fund	FWD Provident Fund Plan
	FWD Capital Guaranteed Plan
	FWD Split Fund Plan
	FWD Multi-Funding Provident Plan
	Independent schemes
ORSO Capital Guaranteed Fund	FWD Provident Fund Plan
	FWD Capital Guaranteed Plan
	FWD Split Fund Plan
	FWD Multi-Funding Provident Plan
	Independent schemes
MPF Capital Guaranteed Portfolio	MPF Basic Scheme
	MPF Comprehensive Scheme
	Sun Life MPF Master Trust (previously known as Schroder MPF Master Trust)

- 3.4. Under the MPF Capital Guaranteed Portfolio ("MPF CG"), FWD administers internally two MPF schemes, previously known as FWD MPF Master Trust Basic Scheme ("MPF Basic Scheme") and FWD MPF Master Trust Comprehensive Scheme ("MPF Comprehensive Scheme"). The roles of sponsor and trustee of the two internal MPF schemes have been transferred from FWD to Sun Life in 2017 while FWD remains the issuer of the insurance policy of MPF Capital Guaranteed portfolio. The names of MPF Basic Scheme and MPF Comprehensive Scheme have been changed to Sun Life MPF Basic Scheme and Sun Life MPF Comprehensive Scheme respectively. They are both open to new business and Sun Life Pension Trust Limited ("SLPT") acts as the trustee of these two MPF schemes (FWD Pension Trust Limited was acting as the Trustee before the transfer of ownership to SLPT in October 2017). MPF CG is also composed of an additional approved pooled investment fund, Sun Life MPF Master Trust (previously known as Schroder MPF Master Trust), which is managed externally.
- 3.5. Under the ORSO Capital Guaranteed Fund and ORSO Non-Guaranteed Fund (the policy holders having the option to choose between the two funds), as at 30 April 2019, FWD administers internally 74 policies issued under four ORSO schemes, namely FWD Provident Fund Plan, FWD Capital Guaranteed Plan, FWD Split Fund Plan and FWD Multi-Funding Provident Plan. Only FWD Multi-Funding Provident Plan is open to new business. SLPT is the trustee of all the ORSO schemes, except for the policies which have not applied for MPF exemption (as they do not need to have a trustee). Out of the 74 policies, there are four FWD Capital Guarantee Plan policies issued to independent schemes which are not administered by FWD but FWD acts as one of the investment managers. I have been informed by FWD that (i) FWD Provident Fund Plan is targeted to be terminated on 1 July 2019; and (ii) all plans under FWD Split Fund Plan have been transferred to FWD Multi-Funding Provident Plan on 1 April 2019.
- 3.6. I have also been informed by FWD that, following the review of the classification of FWD Class G plans by an External Counsel, two internal agency plans (namely Long Service Bonus Scheme (LSB) and Lions Fund) which did not strictly meet the criteria of retirement scheme principles as laid out in Schedule 1 (Classes of Insurance Business) of the Ordinance have been transferred to FWD's Shareholders' Fund as at 31 December 2016.

These two plans are maintained separately as an internal arrangement with FWD's agents. Further details are provided in Appendix H.

Key statistics

- 3.7. The following table shows the details of the long term and retirement business of FWD as at 31 December 2018:

31 December 2018 Class	Number of policies	Amount of net liability (HK\$'m)
A	343,180	52,598
C	19,242	5,285
D	2,850	284
I	268	5
Total	365,540	58,172

31 December 2018 Class	Number of participating schemes	Amount of net liability (HK\$'m)
G – MPF	4,400 (*)	867
G – ORSO	81	2,306
Total	4,481	3,174

Note 1: the above statistics for Class G include MPF and ORSO businesses on the balance sheet of FWD as at 31 December 2018.

Note 2: Appendix G lists out the number of Class G policies (called participating schemes in the table above) issued by FWD as at the date mentioned in Appendix G, which is different of the date mentioned in the table above (31 December 2018).

(*) The number of participating schemes refers to the number of employers while Appendix G lists out of the number MPF Class G policies.

Figures may not be additive due to rounding.

Sun Life

Overview

- 3.8. Sun Life is a licensed insurer under the Ordinance and is authorised to carry on long-term business of Class A (Life and Annuity), Class C (Linked long term), Class D (Permanent Health), Class G (Retirement Scheme management category I), and Class H (Retirement Scheme management category II) and I (Retirement Scheme management category III), as set out in Part 2 of the Schedule 1 of the Ordinance.

Fund structure

3.9. The fund structure of Sun Life is shown in the following diagram:

Sun Life fund structure before transfer

Existing Business Fund	Closed Block Fund (Class A)
	CMG Par Fund (Class A)
	Open Par Fund (Class A)
	RB Par Fund (Class A)
	AoD Fund (Class A)
	Non-Par Fund (Class A)
	Universal Life Fund (Class A)
	Guardian Individual Trad (Class A)
	Guardian Individual Linked (Class C)
	VUL Fund (Class C)
	CMG Deposit Administration Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class H)
	Group Life and Medical (Class I)
	Guardian Group (Class I)
Shareholders' Fund	

(*) the sub-funds above are physically segregated and managed separately.

3.10. Within Class G business, Sun Life administers and maintains two funds separately, namely CMG Deposit Administration (DA) and Guardian Ring-fenced Retirement Fund. Both of them are closed to new business. Within Class H, Sun Life has ORSO business. There is no guaranteed fund offered for MPF except for the newly acquired FWD and Sun Life MPF Capital Guaranteed Portfolio for which FWD currently acts as the guarantor and Sun Life acts as a sponsor.

Key statistics

3.11. The following table shows the details of the long term insurance business of Sun Life as at 31 December 2018:

31 December 2018 Class	Number of policies	Amount of net liability (HK\$m)
A - Non-ring fenced	358,940	39,826
A - Ring fenced	102	43
C - Non-ring fenced	60,457	10,251
C - Ring fenced	2	8

31 December 2018 Class	Number of policies	Amount of net liability (HK\$'m)
I - Non-ring fenced	1071	58
I - Ring fenced	2	18
Total	420,574	50,204

31 December 2018 Class	Number of participating schemes	Account balance (HK\$'m)	Amount of net liability (HK\$'m)
G - MPF - Non-ring fenced (*)	4,400 (**)	841	-
G - ORSO - Non ring-fenced (DA fund)	25	77	85
G - ORSO - Ring-fenced (DA fund)	63	897	1,009
H - ORSO - Ring fenced	4	644	644
Number of ORSO employer with both Class G and H Policies	(2)	-	-
MPF Class G Policies where FWD is the issuer of the insurance policies	(4,400)	(841)	-
Total	90	1,618	1,738

(*) Newly acquired MPF Capital Guaranteed Portfolio, where FWD remains as the issuer of the insurance policies.

(**) The number of participating schemes refers to the number of employers while Appendix G lists out the number MPF Class G policies.

Figures may not be additive due to rounding.

Section 4 The Scheme of Transfer

Purpose

- 4.1. The proposed transfer is described in the documents produced by the Parties as presented to the Hong Kong Court and the Bermuda Court.
- 4.2. The Scheme involves the transfer of the Class G policies underlying the guaranteed funds in respect of the MPF schemes and ORSO schemes from FWD to Sun Life, excluding FWD Retained ORSO Business which will remain with FWD.
- 4.3. The rationale behind this transfer is to allow Sun Life to acquire the pension business of FWD, expanding Sun Life's presence in Asian Wealth Management space in a low capital and fee-based business, and adding scale to Sun Life existing pension business resulting in a reduction of expenses per member.
- 4.4. The Scheme will take effect at 12:01a.m. hours (Hong Kong time) on such date as FWD and Sun Life may decide which date shall be within 90 days after the later of the dates on which the order of the Hong Kong Court is granted and the order of the Bermuda Court is granted, in each case sanctioning this Scheme. Subject to the grants of the order of the Hong Kong Court and the order of the Bermuda Court, it is expected that the Scheme will take effect on 1 December 2020 (the "Transfer Date"), but it may be subject to change.

The Transferring Business

- 4.5. On the Transfer Date, FWD will transfer all Class G policies under and in respect of the MPF schemes and ORSO schemes, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements, written by FWD before the Transfer Date, except the five internal ORSO retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"). The investment manager will be changed from FWD to Sun Life.
- 4.6. The MPF schemes are Sun Life MPF Basic Scheme, Sun Life MPF Comprehensive Scheme and Sun Life MPF Master Trust, and the Class G policies are approved pooled investment funds ("APIFs") under the MPF Capital Guaranteed Portfolio, which is a constituent fund under each MPF scheme. The roles of sponsor and trustee of Sun Life MPF Basic Scheme (formerly known as FWD MPF Master Trust Basic Scheme) and Sun Life MPF Comprehensive Scheme (formerly known as FWD MPF Master Trust Comprehensive Scheme) have been transferred from FWD to Sun Life in 2017 while FWD remains the issuer of the insurance policy of MPF Capital Guaranteed Portfolio.

- 4.7. As at 31 December 2018, the Class G policies under or in respect of the ORSO schemes are issued under the following 4 plans:
- FWD Capital Guaranteed Plan;
 - FWD Multi-Funding Provident Plan;
 - FWD Split Fund Plan;
 - FWD Provident Fund Plan.
- 4.8. There are in total 74 policies issued as at 30 April 2019. I have been informed by FWD that (i) FWD Provident Fund Plan is targeted to be terminated on 1 July 2019; and (ii) all plans under FWD Split Fund Plan have been transferred to FWD Multi-Funding Provident Plan on 1 April 2019.
- 4.9. FWD Retained ORSO Business as defined in paragraph 1.3 will remain with FWD after the Transfer Date.

Transferring liabilities

- 4.10. On and with effect from the Transfer Date:
- Sun Life will assume, in place of FWD, all of the transferring long term liabilities; and
 - the transferring long term policies will form part of Sun Life's long term business portfolio.
- 4.11. Transferring liabilities refer to all liabilities of FWD, excluding the FWD Retained ORSO Business, as at the Transfer Date attributable to the Class G Policy liabilities, being equal to the sum of:
- the account balance as adjusted to reflect policy holder payables and receivables on or around the Transfer Date;
 - the provision for investment guarantee in relation to the Class G policies made in accordance with the approach and methodology specified in paragraph 6.2 of Guideline 7 for investment guarantees, and calculated with FWD's methodology and assumptions as specified in the GL7 Report for the year ended 31 December 2018; and
 - any relevant smoothing provisions determined using FWD's methodology and assumptions.

- 4.12. The following table shows the details of the Class G long term business of FWD as at 31 December 2018.

Class G long term business of FWD			
31 December 2018 Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF	4,400 (*)	841	867
ORSO	81	2,049	2,306
Transferring ORSO Business	77	1,614	1,812
FWD Retained ORSO Business	4	435	494
Total	4,481	2,890	3,174

Note: Appendix G lists out the number of Class G policies (called participating schemes in the table above) issued by FWD as at the date mentioned in Appendix G, which is different of the date mentioned in the table above (31 December 2018).

() The number of participating schemes refers to the number of employers while Appendix G lists out the number MPF Class G policies.*

Figures may not be additive due to rounding.

- 4.13. As at 31 December 2018, the long term business comprised 4,400 MPF schemes and 81 ORSO schemes. The amount of net liability of Class G ORSO business was HK\$ 2,306 million while the amount of net liability of Class G MPF business was HK\$ 867 million.
- 4.14. The account balance of FWD Retained ORSO Business has reduced significantly from 31 December 2017 (HK\$ 719 million) to 31 December 2018 (HK\$ 435 million). This is mainly explained by the payment for Victory Fund Scheme of HK\$ 327 million to FWD Agents in April 2018.

Transferring assets

- 4.15. Transferring assets refer to all properties, assets or investments of FWD equal to the transferring liabilities as at the Transfer Date, which shall be transferred to Sun Life.
- 4.16. Under the Scheme, the long term business funds of Sun Life will be restructured to incorporate the Transferring Business of FWD. The subdivision of the funds and the allocation of assets and liabilities among the comprising funds are described in paragraph 4.17 below.

Sun Life Fund Structure under the Scheme

- 4.17. The following tables set out the proposed change in Sun Life fund structure as a result of the transfer:

Sun Life fund structure before transfer

Existing Business Fund	Closed Block Fund (Class A)
	CMG Par Fund (Class A)
	Open Par Fund (Class A)
	RB Par Fund (Class A)
	AoD Fund (Class A)
	Non-Par Fund (Class A)
	Universal Life Fund (Class A)
	Guardian Individual Trad (Class A)
	Guardian Individual Linked (Class C)
	VUL Fund (Class C)
	CMG Deposit Administration Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class H)
	Group Life and Medical (Class I)
	Guardian Group (Class I)
Shareholders' Fund	

Sun Life fund structure after transfer

Existing Business Fund	Closed Block Fund (Class A)
	CMG Par Fund (Class A)
	Open Par Fund (Class A)
	RB Par Fund (Class A)
	AoD Fund (Class A)
	Non-Par Fund (Class A)
	Universal Life Fund (Class A)
	Guardian Individual Trad (Class A)
	Guardian Individual Linked (Class C)
	VUL Fund (Class C)
	CMG DA Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class G)
	Guardian Ring-fenced Retirement Fund (Class H)
	Group Life and Medical (Class I)
	Guardian Group (Class I)
Transferring Business	New ORSO Non-Guaranteed Sub-Fund (Class G)
	New ORSO Capital Guaranteed Sub-Fund (Class G)
	New MPF Sub-Fund (Class G)
Shareholders' Fund	

- 4.18. To incorporate the Transferring Business, Sun Life will establish three new segregated Class G sub-funds. These sub-funds will be maintained as separate sub-accounts under the Sun Life Class G Funds. Sun Life will continue to maintain existing Class G lines of business separately from the Transferring Business.
- 4.19. Total asset backing the Transferring Business including all assets backing the account balance, the provision for investment guarantee and any smoothing provision would be transferred from FWD to Sun Life, to cover all expected outgoes and maintain solvency for the Transferring Business. In addition, Sun Life Shareholders' Fund will continue to support the existing and Transferring Business in the event of a shortfall of assets.

FWD Fund Structure under the Scheme

- 4.20. Under the proposed Scheme, FWD will have no pension business in-force except for FWD Retained ORSO Business. Therefore, the fund structure of FWD will remain unchanged. The various long term sub-funds will not be affected. The following table sets out the fund structure after the transfer:

FWD fund structure after transfer	
Fund	Sub-fund
Long Term Fund	Traditional Life Fund (Class A)
	MaxFocus Fund I (Class A)
	MaxFocus Fund II (Class A)
	MaxFocus Fund III (Class A)
	MaxFocus Fund IV (Class A)
	Crisis XDefender Fund (Class A)
	Wealth ICON Fund (Class A)
	Universal Life Fund (Class A)
	Universal Life 2 Fund (Class A)
	Universal Life 2.1 Fund (Class A)
	Unit Linked Fund (Class C)
	Permanent Health Fund (Class D)
	Group Life Fund (Class I)
Retirement Fund	ORSO Capital Guaranteed Fund (FWD staff & agents) (Class G)
Shareholders' Fund	

Future operation

- 4.21. Sun Life has undertaken to fulfil all of the policy contract conditions should the business be transferred. This will include the responsibility for paying all benefits of claims, maturities, and other amounts arising from the Transferring Business including the cost of administration of customer transactions.
- 4.22. FWD and Sun Life entered into a 15-year exclusive distribution agreement allowing Sun Life to offer MPF and ORSO schemes through FWD's agency networks in Hong Kong.

Cost and expenses related to the Scheme

- 4.23. The costs associated with the Scheme are to be shared equally by FWD and Sun Life and will be paid out from the Parties' Shareholders' Funds. The costs include those in relation to the preparation of the Scheme and obtaining the sanction of the Hong Kong Court and the Bermuda Court, both incurred before and on the Transfer Date.

Section 5 Impact of the Proposed Transfer – Effect on Benefit Expectations of Transferring Policy holders

- 5.1. In this section I consider the major issues relating to the benefit expectations of the Transferring Policy holders. In forming my opinion on this aspect, I have considered the various matters addressed in the following paragraphs.

Considerations affecting benefit expectations of policy holders

- 5.2. Considerations affecting benefit expectations of retirement business include discretionary elements such as non-guaranteed crediting rates, fees and charges and the rights of the Transferring Policy holders.
- 5.3. For policies with discretionary components, I must also consider the likely effects of the Scheme on how such discretion will be exercised taking into account the current benefit expectations of policy holders. These policies include those with a combination of discretionary and guaranteed crediting rates such as Class G policies. I will elaborate further on the form of discretionary benefits paid to the policy holders of FWD later in this section.
- 5.4. In considering the likely effects of the Scheme on Transferring Policy holders' discretionary benefits prospects, I have considered the following areas:
- The approach taken to determining the amounts of policy holder discretionary crediting rates subsequent to the Scheme implementation, and any differences compared with current practice.
 - The future governance procedures and safeguards, provided by Sun Life's shareholder, against a change of approach that could have an adverse effect on policies with discretionary benefit components.
 - The extent to which future investment strategy, and investment performance, of the assets backing the insurance policies may be affected by the Scheme.
 - The expenses attributable to policy holders as a result of the Scheme.

Existing discretionary benefits of the Transferring Business under FWD

FWD MPF Capital Guarantee Portfolio ("FWD MPF CG")

- 5.5. FWD MPF CG is a unitised fund with price equal to the net asset value. The net asset value increases based on the actual return less applicable administration fees, trustee fee and guarantee fee. FWD MPF CG guarantees that the capital will be preserved at the end of every 5-year period of continuous investment or over a shorter period if the member reaches the age of 65.

FWD ORSO Business

- 5.6. The discretionary benefits of FWD ORSO business are affected by a discretionary crediting rate which is subject to a minimum guaranteed rate. The same crediting rate philosophy is applied to both internal and external ORSO schemes offered by FWD. As of 31st December 2018, only minimum guaranteed crediting rate of 0% p.a. was applicable (refer to paragraph 5.9 for details).

- 5.7. Discretionary crediting rates are reviewed at least annually. The following four criteria are considered when recommending the crediting rate of the year:

- (i) the actual net investment return

The total investment return achieved over the period net of expenses, tax and target investment spread is the starting point of the declared rate determination. It includes unrealised gains and losses on bond and equity. The target investment spread has been set at 0.95% since 2002 and is reviewed by FWD on a regular basis. For FWD Provident Fund Plan, the target investment spread is discretionary but subject to a maximum of 1.5% p.a.. For other plans, the target investment spread is fully discretionary.

- (ii) the stability of return to policy holders

Declared rate can be lower or higher than the total net investment return after smoothing.

- (iii) the long-term supportability of the crediting rate

The size of the fund surplus is a measure of sustainability of the portfolio and should fall within a reasonable range such that it is large enough to support GL7 reserving requirement. For each declaration, a stress test is performed to assess the sufficiency of the buffer after declaring the crediting rate. The declared rate is set such that the net surplus is at least positive. On the other hand, should the surplus be built up over time, the declared rate is increased to distribute the excess return to policy holders.

- (iv) the competitiveness of the crediting rate

The comparison of the declared rate against competitors is also performed to ensure the recommendation is commercially viable.

Based on the latest ORSO crediting rate recommendation approved by FWD Hong Kong Asset-Liability Management Committee ("HK ALMCO") and Board dated 12 November 2018 and 6 December 2018 respectively, a crediting rate of 2.20% p.a. was declared from October 2017 to September 2018.

5.8. For ORSO schemes, an interim crediting rate is declared at the beginning of each year and is calculated as the discretionary crediting rate minus non-recurring items and up to 0.5% further adjustment subject to the Appointed Actuary. During extreme years, the Appointed Actuary can reduce the interim rate further by excluding exceptional non-recurring items. Effective from January 2019, 1.50% p.a. interim crediting rate was determined after considering the discretionary crediting rate, non-recurring items and 0.5% further adjustment suggested by the Appointed Actuary.

5.9. The minimum guaranteed rate can be different from one ORSO scheme to another as shown below:

- FWD Provident Fund Plan

FWD Provident Fund Plan guarantees that during the first 10 years from the commencement date each contribution will earn an effective annual compounding interest rate not less than 5% from the dates the relevant contributions were received.

The 5% guarantee expired for this plan. This plan is closed to new business. FWD Provident Fund Plan is targeted to be terminated on 1 July 2019.

- FWD Capital Guaranteed Plan

For the period of ten years from the commencement date, ORSO Capital Guaranteed Plan guarantees the crediting rate on total contribution will not be less than 0% p.a., less any withdrawals and any charges applicable credited to the account during that period.

This plan is closed to new business.

- FWD Split Fund Plan

For the period of ten years from the commencement date, Split Fund Plan guarantees the crediting rate on total contribution will not be less than 0% p.a., less any withdrawals and any charges applicable credited to the account during that period.

This plan is closed to new business. All plans under FWD Split Fund Plan have been transferred to FWD Multi-Funding Provident Plan on 1 April 2019.

- FWD Multi-Funding Provident Plan

For the period of ten years from the commencement date, Multi-Funding Plan guarantees the crediting rate on total contribution will not be less than 0% p.a., less any withdrawals and any charges applicable credited to the account during that period.

This plan is open to new business.

Historical declared crediting rate for FWD ORSO business

- 5.10. In the past, FWD has made several adjustments to the crediting rates for ORSO Capital Guaranteed Fund, as summarised below for recent years:

Bonus year	Interim crediting rate	Annual declared rate(*)
2002	5.00%	6.00%
2003	4.00%	7.00%
2004	4.00%	6.25%
2005	3.00%	6.25%
2006	3.00%	6.25%
2007	3.00%	7.25%
2008	3.00%	3.00%
2009	3.00%	5.25%
2010	3.25%	5.10%
2011	2.50%	3.60%
2012	2.00%	3.15%
2013	1.75%	3.05%
2014	1.75%	3.10%
2015	1.75%	2.20%
2016	1.50%	2.20%
2017	1.50%	2.40%
2018	1.50%	2.20%

(*) From October of previous year to September of current year

Discretionary benefits of the Transferring Business under Sun Life

- 5.11. Sun Life has undertaken to follow the current approach adopted by FWD to determine the crediting rate. Crediting rates will be reviewed at least annually, taking into account policy holders' reasonable expectations and the market environment. Sun Life's objective is to provide continuity to policy holders and to establish policies and practices similar to FWD to the extent practicable. Similar to FWD, Sun Life will review the methodology on a regular basis as a result of the normal review process. Further details are provided in the following paragraphs.

Discretionary crediting rate

- 5.12. Sun Life has undertaken to maintain the same minimum crediting rate for both ORSO schemes and MPF schemes.
- 5.13. For Class G business transferred from FWD, Sun Life will also adopt the same principle as FWD crediting rate methodology in prior years to the extent practicable. The crediting rate will be managed with respect to the policy holders' reasonable expectations and the net investment return of the period. In particular, in line with the approach used for their existing class G business, Sun Life will consider the following when determining the crediting rate:
- Expected portfolio return. It will be based on the composition of the asset portfolio and Sun Life's internal assumptions with regard to asset returns.
 - Target investment spread. It will be maintained at current level of 0.95% charged by FWD, but could be adjusted from time to time to reflect changing circumstances. While FWD has not made any adjustments to the target investment spread since 2002, FWD has broad right to vary the target investment spread. This right will continue with Sun Life and exists whether or not the Scheme proceeds.
 - Smoothing adjustment. It will be applied to minimise any unexpected volatility in crediting rate due to market fluctuations.
 - Policy holders' reasonable expectations.
- 5.14. As a result of the normal review process, FWD reviews crediting rates methodology periodically, a practice that will remain unchanged for Sun Life.
- 5.15. Expected portfolio returns will be different between FWD and Sun Life, due to different internal views with regard to future market performance, as well as differences in tactical asset allocation, strategic yield enhancement and asset liability matching. The table below compares FWD and Sun Life 2021 investment return assumptions used to produce the 2018 DST results. While the difference between FWD and Sun Life has widened between 31 December 2017 (13 bps) and 31 December 2018 (44bps) due to different internal views on long term investment return assumptions, the difference between the Parties is not expected to have a material impact on the long-term expected portfolio return. As a result, crediting rates following the Scheme are likely to be very similar to the past given the same economic conditions.

	Asset allocation (*)	FWD	Sun Life
5-year HKD corporate bond	78.30%	3.13%	2.24%
5-year USD corporate bond	8.70%	3.68%	3.60%
Equity	13.00%	8.00%	10.00%
Total	100%	3.81%	3.37%

(*) For the purpose of the above assessment, the asset allocation is based on the strategic asset allocation of the Deposit Administration Fund.

- 5.16. For ORSO interim crediting rate, Sun Life will adopt a similar management approach as FWD. Interim rate will be based on the declared crediting rate and further adjusted following the advice of the Appointed Actuary.

Asset allocation and investment policy of the Transferring Business under FWD

Overview

- 5.17. FWD has established a formal structure of investment policies, which is approved by FWD HK ALMCO, FWD Group Asset-Liability Management Committee ("Group ALMCO"), FWD Group Risk Management and Actuarial Committee ("GRMAC") and FWD Group Investment Committee ("GIC"). The investment policies consider the nature of liabilities and the assets supporting the liabilities.
- 5.18. The investment process is managed through HK ALMCO and the Chief Investment Officer ("CIO"). Investment guidelines for the internal assets are established and specified any investment requirements and restrictions.
- 5.19. FWD invests all internal managed ORSO Class G business in a separately managed Deposit Administration Fund, the investment objective for this fund being to achieve a long-term stable return above the guaranteed level. For the MPF CG portfolio, FWD is the investment manager but the assets are invested into another APIF managed by Schroder.

Deposit Administration Fund investment policy

- 5.20. At least two-thirds of the assets in this fund are invested in high quality worldwide fixed-income securities, with the remaining in cash (maximum 10%) and equities (maximum 33%). No more than 15% of total assets will be invested in restricted assets¹ as per FWD internal guidelines.
- 5.21. The actual asset allocation and strategic asset allocation for Deposit Administration Fund as at 31 December 2018 are as follows:

Asset Class	Actual asset allocation – 31 December 2018	Strategic asset allocation
Cash & Cash Equivalent	2%	0%
Fixed Income	85%	87%
HK Equities	13%	13%
Total	100%	100%

¹ Restricted assets are precious metals, commodities, real estates, warrants, future contracts, options or bonds rated below A/A2 and rights and other interest in any of these assets.

Asset allocation and investment policy of the Transferring Business under Sun Life

5.22. Investment policies for Sun Life's existing Class G funds, CMG DA and Guardian DA, are maintained and endorsed by Sun Life's ALM Committee ("Sun Life ALCO"), and approved by Sun Life Financial Asia ALM Committee (SLF Asia ALCO).

5.23. CMG DA assets are invested in fixed income instruments, with objectives to:

- Maximise long-term after-tax-risk-adjusted investment earnings;
- Achieve a market competitive asset yields/spreads to support sustainable and competitive crediting rate.

CMG DA is invested in high quality investment grade fixed income instruments. In case of credit rating downgrades, the percentage of below investment grade investments should not exceed 5% of the portfolio.

5.24. Guardian DA assets are invested in both public fixed income asset and equities, with objectives to:

- Achieve a sustainable yield;
- Maintain policy holders' reasonable expectations by retaining a risk profile consistent with the investment policy.

Guardian DA fixed income portfolio is only invested in high quality investment grade fixed income instruments. In case of credit rating downgrades, the percentage of below investment grade investments should not exceed 5% of the portfolio. A proportion of assets can also be invested in equity.

5.25. Investment policies and asset allocations for the transferring Class G funds will be maintained separately from Sun Life's existing Class G funds. In particular, I have been informed that there will not be significant change to the target asset allocations and the investment policies after the transfer. Similar to the governance process for existing Class G funds, investment policies for the Transferring Business will be maintained and endorsed by Sun Life ALCO and approved by SLF Asia ALCO. The target asset allocation for the ORSO business will be documented in the investment guideline of the Capital Guarantee Policy as per Sun Life existing practice for their existing business while the target asset allocation of the MPF CG Fund is already well documented in the MPF Explanatory Memorandum and will not change. The investment policies and asset allocations for the transferring funds will not be subject to material changes from FWD existing policies.

Overall comments on policy holder discretionary benefits philosophy after the transfer

5.26. I have considered the decisions in the future that may affect the level of discretionary benefits received by the Transferring Policy holders after Scheme implementation. Sun Life has confirmed that the company will follow the current crediting rate policy adopted by FWD and that there will not be any significant change to the existing principles and methods following implementation of the Scheme.

- 5.27. Crediting rates for Transferring Business will be determined separately and will reflect the effect of investment returns earned, less charges, subject to smoothing and to the guarantees inherent in the policies.
- 5.28. FWD reviews crediting rates methodology periodically, a practice that will remain unchanged for Sun Life.
- 5.29. I have been informed that the investment policy for the Transferring Business would be consistent with the investment policy of the funds before transfer.
- 5.30. In light of my review, it is my opinion that the current discretionary benefits setting principles and methodologies, and the required procedures for any changes to the existing approach, which Sun Life has undertaken to adopt after the transfer, provide sufficient safeguard that policy holders should expect to be treated in a similar manner before and after the transfer.
- 5.31. I have also considered the possible impact of the Scheme arising from any conflicting crediting rate policies. As the Transferring Policies will be managed in a separate fund from the existing policies of Sun Life immediately after the transfer, there will not be any conflicting crediting rate policies that need to be aligned after Scheme implementation. Therefore, I do not believe the Scheme presents an issue in relation to conflicting crediting rate policies.

Discretionary charges of the Transferring Business under FWD

- 5.32. FWD has broad rights to vary policy charges, as well as the right to impose any other charges for administering the policy. All scheme members and participating employers would be given written notice in advance according to policy provisions before any changes come into effect. These rights will continue with Sun Life and exist whether or not the Scheme proceeds.
- 5.33. I have been informed by Sun Life that the current charge level for the Transferring Business will not change materially as a result of the transfer. In particular no other fees would be applied to the Transferring Business. Charges will be disclosed in the Explanatory Memorandum for both MPF and ORSO policies.

Contractual guaranteed benefits provisions

- 5.34. According to the Scheme, Sun Life will commit to continue paying the guaranteed benefits of the Transferring Policy holders of FWD. The rights of these policy holders, as defined under their existing policy documents, will be the same before and after the transfer.

Costs and expenses in relation to the Scheme

- 5.35. The total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's shareholders' Funds. Sun Life 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 policy

holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, I have no reason to believe there will be any adverse impact on the Transferring Policy holders in this regard.

Tax implications

- 5.36. For Hong Kong tax purpose, FWD has elected to be assessed on a profit tax basis for all lines of business, including Class G business. As of 31 December 2018, FWD has accumulated tax loss carried forward. No tax balances will be transferred from FWD to Sun Life as a result of the transfer. In addition, the tax loss carried forward is not taken into account when determining the crediting rate.
- 5.37. Both FWD and Sun Life are using the Hong Kong profit tax rate of 16.5% to calculate the tax of the Class G businesses. Hence the tax regime applied to the Transferring Business will be unchanged following Scheme implementation.

Policy terms and conditions

- 5.38. I have been informed that there will be no change to the policy terms and conditions of Transferring Business as a result of Scheme implementation. I have no reason to believe there will be an adverse impact on the policy terms and conditions of policy holders due to the Scheme itself in this regard.

Impact of the split of FWD non-Class G plans

- 5.39. Two FWD non-Class G agency plans have been transferred to FWD's Shareholders' Fund as at 31 December 2016 following a review of the classification of FWD Class G plans. The split of these two non-Class G plans will not lead to any material adverse impact on the benefit expectations of the Transferring Policy holders as the two non-Class G agency plans were managed separately from the other remaining Class G plans.

Conclusion

- 5.40. In summary of my assessments above, I consider that the Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD

Section 6 Impact of The Proposed Transfer – Effect on Benefit Expectations of policy holders of the non-transferring policies of FWD and Existing Sun Life Policy holders

- 6.1. In this section, I consider the main issues relating to the benefit expectations of the policy holders of the non-transferring policies of FWD and the existing policy holders of Sun Life. In forming my opinion on this aspect, I have considered the various matters addressed in the following paragraphs.

Discretionary benefits

FWD non-Transferring Business

- 6.2. The principles and methods currently adopted by FWD in determining dividends for its in-force participating policies and discretionary interest rates on universal life policies will not be changed after the proposed transfer. FWD will retain the rights to review the dividend management philosophy for participating policies and the crediting rate mechanism for universal life policies and such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.
- 6.3. Before the transfer, the assets backing the participating and universal life policies of the remaining policy holders of FWD are managed separately from the assets underlying the Transferring Policies. The consideration of the transfer received by FWD will not be allocated to the participating and universal life policies of the remaining policy holders.
- 6.4. After the proposed transfer, part of the overhead expenses in relation to the retirement business (less than 3% of the total expenses based on a study of the pension related expenses incurred by FWD for the period 2014-2018) will not be fully eliminated and will be allocated to the remaining business. However, given that the increased expenses allocated to the remaining business should be in line with the increased effort into managing the business, FWD does not expect any material increase in unit cost. In addition, given the investment experience is the main factor affecting the dividend and crediting rate, there should not be any adverse impact on dividend payments and crediting rates.
- 6.5. For non-participating life policies and investment linked policies, FWD currently has broad rights to adjust premium and change fees or charges, which FWD may exercise in the future. These rights exist whether or not the Scheme proceeds. In determining the level of premium adjustment and non-guaranteed charges, the process and principles involved will not be changed as a result of the transfer.
- 6.6. For FWD Retained ORSO Business, FWD has no intention to change the investment strategy or the crediting rate philosophy as a result of the Transfer at Transfer date. Any future review or change will undergo the same review process as the one before the transfer.

However, due to the decrease in asset under management in 2018 and the potential increase in investment expense, FWD has intention to outsource the investment of FWD Retained ORSO Business, keeping the investment objectives unchanged and continuing offering the same guarantee. However no concrete timeline has been defined at the time this Report has been written. In any event, FWD will ensure compliance with the requirements of GL14 "Guideline on Outsourcing" and will go through the necessary regulatory approval process.

Sun Life existing business

- 6.7. Sun Life will maintain the Transferring Business separately from Sun Life's existing business, and in particular Sun Life's existing Class G business. For existing policy holders, contractual guaranteed benefits will remain unchanged. Also there should be no impact to the expenses for Sun Life's existing business.
- 6.8. In particular, the principles and methods currently adopted by Sun Life in determining dividends for its in-force participating policies and discretionary interest rates on universal life policies will not be changed after the proposed transfer. Sun Life will retain the rights to review the dividend management philosophy for participating policies and the crediting rate mechanism for universal life policies and such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.
- 6.9. For non-participating life policies and investment linked policies, Sun Life currently has broad rights to adjust premium and change fees or charges, which Sun Life may exercise in the future. These rights exist whether or not the Scheme proceeds. In determining the level of premium adjustment and non-guaranteed charges, the process and principles involved will not be changed as a result of the transfer.
- 6.10. No material change in the level of premium adjustment and/or non guaranteed charges is anticipated as a result of the transfer.

Asset allocation and investment policy

FWD non-Transferring Business

- 6.11. FWD has no intention to change the investment strategies currently adopted for the assets supporting the non-transferring policies after the proposed transfer. FWD will retain the rights to review the respective asset allocation and investment decisions set out in the investment policies and such rights exist whether or not the Scheme proceeds, and will not be affected by the Scheme.
- 6.12. However, due to the decrease in asset under management and the potential increase in investment expense, FWD has intention to outsource the investment management of FWD

Retained ORSO Business, keeping the investment objectives unchanged and continuing offering the same guarantee.

Sun Life existing business

- 6.13. Investment policies for existing and transferring funds will be maintained separately. Investment policies for Sun Life's existing Class G funds are maintained and endorsed by Sun Life ALCO, and approved by SLF Asia ALCO. The investment policies for both existing and transferring funds will not be affected by the Transfer. Investment policies for Sun Life's existing Class G funds will not be affected by the proposed transfer and Sun Life will retain the rights to review the respective asset allocation and investment decisions set out in the investment policies of the existing business. Investment policies for other lines of business will also not be affected by the Transfer.

Policy terms and conditions

- 6.14. I have been informed by FWD and Sun Life that there will be no change to the policy terms and conditions of the non-Transferring and existing Business as a result of Scheme implementation. I have no reason to believe there will be an adverse impact on the policy terms and conditions of policy holders of the non-transferring policies of FWD and existing Sun Life policy holders due to Scheme implementation.

Costs and expenses in relation to the Scheme

- 6.15. The costs associated with the Scheme are to be shared by FWD and Sun Life equally and the total cost incurred in relation to the Scheme is to be met by FWD and Sun Life's Shareholders' Funds. FWD and Sun Life have confirmed that the costs will be borne by shareholders and will not be passed on to policy holders. Thus 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 policy holders or a decrease in the policy holder level of discretionary benefits paid. Therefore, there will be no material adverse impact on the long term policy holders of FWD and Sun Life in this regard.

Impact of the split of FWD non-Class G plans

- 6.16. Two FWD non-Class G agency plans have been transferred to FWD's Shareholders' Fund as at 31 December 2016. The split of these two non-Class G plans will not lead to any material adverse impact on the benefit expectations of the policy holders of the non-transferring policies of FWD as the two non-Class G agency plans were managed separately from the other remaining Class G plans. Also, it will not have any impact on the benefit expectations of the existing Sun Life policy holders.

Conclusion

- 6.17. In summary of my assessment above, I consider that the Scheme will have no material adverse effect on the reasonable benefit expectations of the policy holders of the non-transferring policies of FWD and of the existing policy holders of Sun Life.

Section 7 Impact of the Proposed Transfer – Effect on the Financial Security of Transferring Policy holders

- 7.1. In this section, I consider the main issues relating to the financial security of the Transferring Class G long term policy holders of FWD. In arriving at my opinion, I have considered the issues covered in the paragraphs below.

Considerations affecting financial security of policy holders

- 7.2. The security of the contractual benefits of policy holders can be measured by the excess assets in the long term business fund plus the net shareholder assets. It is affected by the conservatism of the reserving bases used and the capital and free assets of FWD, together with additional security provided by a life insurance company as a whole, and any potential support available from its shareholders.
- 7.3. I need to consider the solvency positions of the Parties prior to the transfer and the expected overall solvency position of Sun Life following implementation of the Scheme and its possible future development.

The provision of financial security

- 7.4. To protect the security of policy holders, insurance companies maintain three asset layers namely policy reserves, minimum solvency margin and surplus, with the first two layers required by legislation.
- Policy reserves:
 - Assets supporting the policy liabilities calculated according to the underlying contractual obligations. The valuation standards are prescribed by statutory rules.
 - For Class G business, reserves are calculated and established with reference to the requirements of Guideline on the Reserve Provision for Class G of Long Term Business (“GL7”) under the Ordinance issued by the HK IA. Under this Ordinance, an insurance company is required to have sufficient assets to meet the required provisions for all liabilities to the Class G policy holders, including the liabilities arising from the proper provision for investment guarantees which should cover most of the adverse situations with a 99% level of confidence.

- Minimum solvency margin:
 - Prescribed by statutory regulation, which includes assets required to fulfil the minimum solvency requirements. This serves as a margin relating to the risks of liabilities undertaken by the insurers.
 - For long-term business written under Class G, there is no additional solvency margin required in Hong Kong on top of the existing GL7 reserve.
- Surplus:
 - Admissible net assets that are over and above the statutory minimum solvency margin.

7.5. In addition to these three asset layers, insurance companies are required to examine annually the financial position of the overall business under a number of adverse scenarios as prescribed by the Actuarial Guidance Note 7 (“AGN7”) on Dynamic Solvency Testing (“DST”) issued by the Actuarial Society of Hong Kong and required by the HK IA. The objective of this investigation is to identify the possible actions for dealing with any potential threats that may happen during the course of the business.

Policy reserves of the Transferring Business

7.6. Both FWD and Sun Life have been reporting under the Hong Kong regulatory regime, with the auditors certifying the financial statements prepared in accordance with the Ordinance and Appointed Actuary issuing Actuary's certificate as required by the Ordinance.

7.7. In accordance with the required valuation standards, FWD 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 requirements of Guideline on the Reserve Provision for Class G of Long Term Business under the Ordinance issued by the HK IA. In particular, FWD statutory reserve of Class G long term business is equal to the sum of:

- accumulation of contributions paid into the fund, reduced by applicable expenses, fees or charges, and increased by interest credited in accordance with the applicable guaranteed rate or declared rate (“Account Balance”);
- provisions for investment guarantee (“GL7 reserves”); and
- additional smoothing reserves.
 - For ORSO business, the smoothing reserve is set equal to the difference between (i) the total assets and (ii) the sum of the Account Balance and the GL7 reserves. In other words, the remaining surplus above and on top of the sum of the Account Balance and GL7 reserve acts as a smoothing buffer to absorb certain market fluctuations.

- For MPF business, the smoothing reserve is held such that the sum of the GL7 reserve and smoothing reserve of the period is at least equal to the sum of the GL7 reserve and smoothing reserve of the previous period. This approach has been developed by FWD to ensure the stability of the total reserves excluding Account Balance for a rapidly growing MPF business. However this methodology may be subject to change should the economic environment be different in the future.

7.8. The Table below shows the statutory reserves of FWD Class G business from 31 December 2015 to 31 December 2018.

HK\$ million	31 December 2015			31 December 2016		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	677	16	10	758	21	5
ORSO	2,358	156	84	2,367	179	30
Total	3,035	172	93	3,125	200	34
HK\$ million	31 December 2017			31 December 2018		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	849	12	14	841	20	6
ORSO	2,563	205	128	2,049	167	91
Total	3,412	217	143	2,890	186	97

Note: Transferring assets are equal to the sum of the account balance, minimum GL7 reserve and smoothing reserve.

Figures may not be additive due to rounding.

- 7.9. I have not attempted to independently review the reserve calculations of the Parties. I explicitly rely on the Appointed Actuaries and management of both Parties that the reserves are appropriate with respect to regulatory compliance and accurate as presented. The Appointed Actuaries have both certified compliance with the Ordinance (CAP 41E-Insurance (Determination of Long Term Liabilities) Rules) and the reserves (including the entire process from data inputs to model to production of results) have been audited as part of the normal audit process.
- 7.10. After the transfer, stochastic valuation approach will be used by Sun Life to determine the GL7 reserves, which is the current approach adopted by FWD. More specifically, Sun Life will continue holding GL7 reserves for the Transferring Business that satisfies the Hong Kong regulatory standards, with reference to the requirements of the Guideline on the

Reserve Provision for Class G of Long Term Business. In particular, for each stochastic economic scenario, the shortfall between the market value of assets and the account balance is projected and discounted back to the valuation date and the minimum GL7 reserve is determined based on the 99th percentile of the empirical distribution of the present value of the shortfall under all stochastic scenarios. In addition Sun Life will continue holding a smoothing reserve for both ORSO and MPF using a methodology similar to FWD's.

7.11. At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business,

- Similar to FWD approach before the Transfer, the minimum GL7 reserve for ORSO business will be split between FWD Retained ORSO Business (HK\$ 38 million as at 31 December 2018) and the Transferring ORSO Business (HK\$ 128 million as at 31 December 2018) based on the Account Balance. Even though historically the two types of business were managed in aggregate, this split was assessed to be reasonable given (i) economic assumptions are equal between the two blocks; (ii) average historical lapse experience is close between the two blocks (although recent 2018 experience has been more volatile and has shown differences) and the minimum GL7 is not materially sensitive to change in lapses; and (iii) a quantitative assessment was made in the past showing that the account value is an appropriate driver to split the GL7 reserve. (further details are provided in paragraph 8.6)
- The entire ORSO smoothing reserve, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO Business as defined in paragraph 7.7, will be transferred to Sun Life, leading to a higher smoothing reserve for the Transferring Business after the Transfer.

7.12. The Table below shows the Statutory Reserve of the Transferring Business before and after the Transfer:

HK\$ million 31 December 2018	FWD – Before transfer			Sun Life – After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	841	20	6	841	20	6
Transferring ORSO Business	1,614	128	70	1,614	128	91
Total	2,455	148	76	2,455	148	97

Figures may not be additive due to rounding. Sun Life has committed not to reducing the total reserves held at transfer date as shown in the table above and to use a stochastic valuation approach that satisfies the Hong Kong regulatory standards going forward, as per FWD existing approach.

7.13. After the transfer, the procedures will also remain unchanged such that the reserving methods and valuation bases of the Transferring Business and the existing Sun Life business will be disclosed in the annual Actuary's report. Similar to FWD, any revised

valuation approach or bases, as a result of the normal review process, will continue to comply with local regulations and prescribing guidelines.

- 7.14. In conclusion, the reserves held after the transfer will be higher than the reserves held by FWD before the transfer. In addition, the methodology is not expected to be changed materially. Therefore it is my opinion that the changes in procedures in determining the valuation methodology before and after the transfer will not materially impact the financial security of the Transferring Policy holders of FWD.

Solvency position

- 7.15. There is no additional solvency margin required in Hong Kong for Class G business on top of the existing GL7 reserve.
- 7.16. Both FWD and Sun Life do not have a formal requirement for additional solvency margin above the GL7 reserve and smoothing reserve. Since GL7 reserves are calculated at the 99th percentile, which is a high confidence level, the GL7 requirement can be seen as an effective solvency requirement.

Overall financial position and shareholders' capital

- 7.17. In this section I consider in more detail the shareholders' capital of both FWD and Sun Life and the level of surplus in excess of the minimum requirement. In particular I have considered the free assets position, which is defined as the ratio of the surplus (net asset minus statutory solvency margin) divided by the total liabilities including statutory solvency margin. There is no regulatory requirement regarding free assets for Class G business in Hong Kong, but free assets represent an additional level of security.
- 7.18. From the audited accounts as at 31 December 2018, the valuation of FWD, under the Hong Kong statutory basis, included total liabilities of HK\$90,348 million. This was compared with total assets of HK\$96,796 million. When all assets are included (including the non-distributable surplus of HK\$400 million), there are HK\$6,847 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,569 million.

31 December 2018 - HKFRS HK\$ million	FWD Total
<u>Assets</u>	
Intangible Assets	-
Held-to-maturity financial assets	3,658
Available-for-sale financial assets	58,620
Financial assets at fair value through profit or loss	8,679
Loans and receivables	1,111
Deferred Tax Assets	38
Reinsurance Assets	12,940
Other Assets	10,856
Insurance receivables	895
Total Assets	96,796
<u>Liabilities</u>	
Insurance contract liabilities(*)	83,604
Investment contract liabilities	2,522
Liabilities held for sale	2,713
Other Liabilities	1,509
Total Liabilities	90,348
Net assets	6,448
Non-distributable surplus	400
Statutory net assets	6,847
Required Solvency margin	2,569
Surplus over Statutory Solvency Margin	4,278

Figures may not be additive due to rounding.

Exchange rate as at 31 December 2018 is US\$1 = HK\$7.832.

(*) Including non-distributable surplus of HK\$400m.

- 7.19. Before transfer, as at 31 December 2018, the Hong Kong statutory valuation of Sun Life included total net liabilities of HK\$63,900 million. This was compared with total assets of HK\$70,143 million. When all assets are included there are HK\$6,244 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$1,985 million.

31 December 2018 - HKFRS	Sun Life - Before transfer		
HK\$ million	Class G	Shareholders Fund and Others	Total
<u>Assets</u>			
Intangible Assets	-	1,117	1,117
Plant & equipment	-	73	73
Investments in securities	1,252	62,378	63,630
Reinsurance assets	-	1,598	1,598
Interest in a subsidiary	-	318	318
Investments in associate	-	241	241
Loans and other receivables	-	945	945
Deferred Tax Asset	-	-	-
Deferred Origination Cost (DOC)	-	716	716
Amount due to Shareholders' Fund / Amount due from Long Term business	(43)	43	-
Other Assets	2	532	535
Bank balances & cash	7	963	970
Total Assets	1,219	68,924	70,143
<u>Liabilities</u>			
Insurance contract liabilities	1,094	47,992	49,086
Investment contract liabilities	-	4,684	4,684
Amount on deposits	-	7,572	7,572
Deferred Tax Liabilities	-	118	118
Other Liabilities	125	2,314	2,439
Total Liabilities	1,219	62,680	63,900
Net assets	-	6,244	6,244
Required Solvency margin	-	1,985	1,985
Surplus over Statutory Solvency Margin	-	4,258	4,258

Figures may not be additive due to rounding.

(*) Admissible surplus under IA basis = HKD 5,082 million with modified coinsurance reinsurance treaty and HKD 4,354 without modified coinsurance treaty.

- 7.20. After transfer, as at 31 December 2018, the Hong Kong statutory valuation of Sun Life included total net liabilities of HK\$66,601 million. This was compared with available assets of HK\$72,844 million. When all assets are included there are HK\$6,244 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$1,985 million.

31 December 2018 - HKFRS		Sun Life - After transfer	
HK\$ million	Class G	Shareholders' Fund and Others	Total
Assets			
Intangible Assets	-	1,217	1,217
Plant & equipment	-	73	73
Investments in securities	3,953	62,378	66,331
Reinsurance assets	-	1,598	1,598
Interest in a subsidiary	-	318	318
Investments in associate	-	241	241
Loans and other receivables	-	945	945
Deferred Tax Asset	-	-	-
Deferred Origination Cost (DOC)	-	716	716
Amount due to Shareholders' Fund / Amount due from Long Term business	(43)	43	-
Other Assets	2	532	535
Bank balances & cash	7	863	870
Total Assets	3,920	68,924	72,844
Liabilities			
Insurance contract liabilities	3,795	47,992	51,787
Investment contract liabilities	-	4,684	4,684
Amount on deposits	-	7,572	7,572
Deferred Tax Liabilities	-	118	118
Other Liabilities	125	2,314	2,439
Total Liabilities	3,920	62,680	66,601
Net assets	-	6,244	6,244
Required Solvency margin	-	1,985	1,985
Surplus over Statutory Solvency Margin	-	4,258	4,258

Figures may not be additive due to rounding.

- 7.21. The table below compares free asset ratios before and after the transfer as at 31 December 2018.

31 December 2018 HK\$ million	FWD before transfer	Sun Life after transfer
<u>Total company</u>		
Total liabilities including solvency margin (A)	92,918	68,586
Surplus over solvency margin (B)	4,278	4,258
Free asset ratio (B) / (A)	4.6%	6.2%

Dynamic solvency testing

- 7.22. Investigations into the financial position of the long term business under AGN7 issued by the Actuarial Society of Hong Kong (the “DST results”) have been produced by both FWD and Sun Life. These DST results examine the risk profile of the companies before and after the proposed transfer under a number of possible adverse scenarios. I have been provided with these results for FWD and Sun Life with and without the Transferring Business. A summary of DST results is shown in Appendix F. The key conclusions are the following:

- **Before transfer under FWD**

DST results show that the financial position of FWD remains satisfactory. In particular FWD solvency positions remain above the regulatory requirement in all prescribed scenarios after reflecting management action and risk management strategies such as reinsurance and hedging. There is no material difference in the future solvency positions of FWD whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of FWD total portfolio.

- **After transfer under Sun Life**

DST results show that the financial position of Sun Life remains satisfactory for all the prescribed scenarios. In particular Sun Life solvency positions remain above the regulatory requirement in most of the prescribed scenarios (which are directly comparable to FWD’s prescribed scenarios) and above 100% in all the scenarios. There is no material difference in the future solvency positions of Sun Life whether the proposed transfer is executed or not due to the lack of materiality of the Transferring Business in the scheme of Sun Life total portfolio.

Risk exposures

- 7.23. There have been DST projections which examine the financial positions of the companies before and after the proposed transfer under a number of possible adverse scenarios. In particular, these results examine the risk profile of the companies before and after the proposed transfer. I have been provided with these DST results for FWD and Sun Life with

- and without the Transferring Business. I have considered these results to assess the impact of the Scheme on the Transferring Business.
- 7.24. The future solvency positions of both FWD and Sun Life are not materially impacted by whether or not the proposed transfer is executed. In particular the future solvency positions of both FWD before the transfer and Sun Life after the transfer remain satisfactory. In particular it remains above the regulatory requirement under most of the set of scenarios tested and above 100% under all the scenarios tested.
- 7.25. The risk exposure of Sun Life total portfolio after transfer appears to be comparable to the risk exposure of FWD before transfer. For both companies, the drop in interest rates, combined with an equity market and real estate shock is the most adverse prescribed scenario.
- 7.26. Overall, the Transferring Business only accounts for about 5% of the total Sun Life liabilities. So due to the relatively lack of materiality of the Transferring Business with regard to Sun Life total business, the additional risk introduced as a result of the transfer is not deemed material.
- 7.27. Investment risks are dependent on the investment policies for products offering minimum guarantees. I will consider the investment mandate involved with the Scheme separately. This consideration also covers other categories of risks including credit risk, liquidity risk and currency mismatch risk.
- 7.28. 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 the Transferring Policy holders, and hence the Scheme will not adversely affect the financial security of the Transferring Policy holders.

Investment policy

FWD investment policy

- 7.29. Investment activities within FWD are governed by investment policies, which are approved by the FWD Hong Kong Asset-Liability Management Committee, FWD Group Asset-Liability Management Committee, FWD Group Risk Management and Actuarial Committee and FWD Group Investment Committee.
- 7.30. I have been provided with the ALM guidelines, the currency mismatch position and the strategic asset allocation review papers of FWD before the transfer. In particular, these documents set out different investment policies which contain the strategic asset allocation, investment constraints and approval processes of each investment policy.
- 7.31. Each block of business subscribes to units of different funds. The funds are managed through Specialist Mandates, which are effectively the investment guidelines to fund managers.

Sun Life investment policy

- 7.32. Sun Life has confirmed that after the transfer, it will maintain a similar approach as FWD. In particular, the investment policies for the Transferring Business will be endorsed by Sun Life ALCO and approved by SLF Asia ALCO.
- 7.33. As mentioned in paragraph 5.25, Sun Life will maintain separate investment policies and asset allocations for the Transferring Business, and there will be no significant change to the target asset allocations and investment policies after the transfer. As the invested assets supporting the Transferring Business will be managed separately from the investment assets supporting the existing policies of Sun Life, there will be no conflicting investment objectives to reconcile, or varying operational standards to be aligned.
- 7.34. For the transferring internal ORSO business, underlying assets are currently managed under the investment department of FWD, while assets underlying the transferring MPF business and external funds for ORSO business are managed by external fund managers. After Scheme implementation, the assets underlying the transferring internal ORSO business will be managed internally by Sun Life investment department, and the assets underlying the other Transferring Business will continue being managed by external fund managers.

Impact of the split of FWD non-Class G plans

- 7.35. I have been informed by FWD that, before the Transfer, the account value of the two non-Class G agency plans LSB and Lions Fund, previously recorded as Class G business, has been transferred to FWD's Shareholders' Fund, while the associated GL7 reserve and smoothing reserve calculated previously by FWD but no longer required have been retained in the ORSO fund and will be transferred to Sun Life together with the Transferring ORSO Business on transfer date.
- 7.36. Hence it is my opinion that the split of FWD non-Class G plans will not have any material adverse effect on the financial security of the Transferring Policy holders.

Conclusion

- 7.37. In view of my assessment above, I believe the Scheme will have no material adverse effect on the financial security of the Transferring Policy holders. The main reasons for this opinion are summarised below:
- Total reserves for the Transferring Business will be higher after the transfer than before the transfer and the underlying methodology is not expected to be changed materially
 - Under the prescribed scenarios, there is no material difference in the future solvency position of the Transferring Business before and after the transfer due to the lack of materiality of the Transferring Business with regards to the size of both FWD and Sun Life total portfolio.

Section 8 Impact of the Proposed Transfer – Effect on the Financial Security of policy holders of the non-transferring policies of FWD and Existing Sun Life Policy holders

- 8.1. In this section I consider the main issues relating to the financial security of the policy holders of the non-transferring policies of FWD and existing Sun Life policy holders. In arriving at my opinion, I have considered the issues covered in the paragraphs below.

Policy reserves

FWD non-Transferring Business

- 8.2. FWD has set up reserves using established methods and prudent assumptions certified by the Appointed Actuary of FWD in accordance with the Ordinance and the Actuarial Guidance Notes issued by the Actuarial Society of Hong Kong.
- 8.3. The reserving methodology and its underlying assumptions are reviewed from time to time as business and valuation techniques evolve to ensure that the reserves remain appropriate and comply with local regulations and prescribed guidelines. After the transfer, the reserving principles for the remaining policies will not change following the implementation of the Scheme. The same valuation methods will remain applicable after the transfer.
- 8.4. FWD retains the right to review the methodology as business and valuation evolve as a normal course of business, and the right exists whether or not the Scheme proceeds. The valuation bases adopted for each block of business will continue to be based on the underlying experience of the block and the investment return assumption will be based on the assets backing each of the respective blocks.
- 8.5. The current valuation basis adopted by FWD has been certified compliant with respect to Hong Kong requirements and is audited by the auditor of the company. The FWD basis after the transfer will be similarly audited. Any revised valuation approach or bases, as a result of the normal review process, will have to continue to comply with local regulations and prescribing guidelines.
- 8.6. After the transfer, FWD will have no in-force pension business except for the five internal Class G plans for FWD staffs and agents which will remain with FWD. For FWD Retained ORSO Business, the GL7 reserve and smoothing reserve have been calculated as follows

■ Minimum GL7 reserve.

The minimum GL7 reserve for ORSO business is split between FWD retained ORSO Business and the Transferring ORSO Business based on the Account Balance of internal funds.

Even though historically the two categories were managed in aggregate, this split was assessed to be reasonable given (i) economic assumptions are equal between the two blocks; (ii) average historical lapse experience has been close between the two blocks (although recent 2018 experience has been more volatile and has shown differences – further details are given in the Table below) and the minimum GL7 is not materially sensitive to change in lapses; and (iii) a quantitative assessment was made as at year end 2015 showing that the account value is an appropriate driver to split the GL7 reserve (further details are given in the Table below).

The Table below shows the historical lapse experience for the two blocks of business:

Lapse experience	Total	FWD Retained ORSO Business (*)	FWD Transferring ORSO Business
2013	6.6%	5.5%	6.8%
2014	13.1%	8.7%	13.9%
2015	6.3%	5.3%	6.6%
2016	6.6%	7.9%	6.2%
2017	8.5%	8.5%	8.5%
2018 (**)	9.9%	1.0%	13.1%
Average	8.9%	6.0%	9.7%

(*) includes the two agency plans which did not strictly meet the criteria of retirement scheme principles.

(**) 2018 low experience appears to be driven by volatility in claims. 2017 Lapse experience between the two blocks was much closer. 5-year average is used for assumption setting purpose.

The Table below shows the results of the quantitative assessment made as at year end 2015 which compares the minimum GL7 reserves calculated using the actuarial valuation model ("Approach A") against the proxy approach where the minimum GL7 reserve is allocated using the Account Balance ("Approach B").

Minimum GL7 reserve Year end 2015	Account balance	Approach A	Approach B
FWD Retained ORSO Business	650	43	43
FWD Transferring ORSO Business	1,707	112	113
Total	2,358	156	156

(*) includes the two agency plans which did not strictly meet the criteria of retirement scheme principles. Figures may not be additive due to rounding.

In addition, sensitivity tests have been performed on the minimum GL7 reserve as at 31 December 2018 to ensure the minimum GL7 reserve is not impacted materially by a significant change in lapse. The results are shown in the Table below and are expressed as a percentage of the Account Balance.

Minimum GL7 reserve expressed as a percentage of Account Balance – 31 December 2018

Base case scenario	8.76%
Lapse assumption increases by 50% (i.e. 150% of the rates under the base case)	8.40%
Lapse assumption decreases by 50% (i.e. 50% of the rates under the base case)	9.43%

Based on the analysis above, the apportionment methodology is not expected to impact materially the minimum GL7 reserve of FWD Retained ORSO Business and the Transferring ORSO Business.

■ **Smoothing reserve.**

The smoothing reserve for ORSO business is split between FWD Retained ORSO Business and the Transferring ORSO Business based on the Account Balance of internal funds. Even though the entire ORSO smoothing reserve will be transferred to Sun Life at Transfer Date, FWD will set up smoothing reserve for FWD Retained ORSO Business after the transfer equal to the smoothing reserve before the transfer (i.e. based on the split of the total smoothing reserve based on the Account Balance). The smoothing reserve will be funded from FWD Shareholders' Fund. Given the relatively limited size of this smoothing reserve (HKD 21 million), setting up this additional reserve is not expected to have a material impact on policy holders of the non-transferring policies of FWD .

8.7. The Table below shows the Statutory Reserve of FWD Retained ORSO Business before and after the Transfer:

HK\$ million		Before transfer		After transfer		
31 December 2018	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	435	38	21	435	38	21

Sun Life existing business

- 8.8. Similar to FWD, Sun Life has set up reserves using established methods and prudent assumptions certified by the Appointed Actuary of Sun Life in accordance with the Ordinance and the Actuarial Guidance Notes issued by the Actuarial Society of Hong Kong. The current valuation basis adopted by Sun Life has been certified compliant with respect to Hong Kong requirements and is audited by the auditor of the company.
- 8.9. The Sun Life basis after the transfer will be similarly audited. Any revised valuation approach or bases, as a result of the normal review process, will have to continue to comply with local regulations and prescribing guidelines.

Solvency Positions

FWD Solvency Position

- 8.10. Solvency margins are currently maintained by FWD, in addition to the policy reserves in respect of the contracts in-force. The table below shows the solvency positions based on the audited accounts of FWD as at 31 December 2018. The projection is based on a set of realistic assumptions for investment return, management expenses and new business sales to get the December 2019 to December 2021 projected solvency ratio. Solvency margin refers to the minimum Hong Kong statutory solvency requirement and solvency ratio expresses Shareholders' Funds as a proportion of the minimum solvency margin.

	FWD's solvency position			
	Actual Dec 2018	Dec 2019	Projected Dec 2020	Dec 2021
Statutory solvency ratio	233%	225%	225%	225%

- 8.11. The DST projections provided show that the solvency of FWD remains satisfactory and above the regulatory minimum requirement. The solvency ratio during the projection period will remain at or above 150% under the six prescribed scenarios. The projections do not show any material difference with and without the transfer and the future solvency positions of FWD will have similar sensitivities under the scenarios tested. The risk exposures do not materially change after the proposed transfer. Based on these results, there is no reason to believe that the transfer will prejudice the financial security of the remaining policy holders of FWD.

Sun Life Solvency position

- 8.12. The tables below present the projected solvency ratio without Transferring Policy holders and with Transferring Policy holders between December 2019 and December 2021. The projection is based on a set of realistic assumptions as at 31 December 2018 for investment return, management expenses and new business sales consistent with the business plan

submitted to the IA in March 2019. It also reflects the modified coinsurance signed in August 2016.

Sun Life's projected solvency position before transfer				
	Dec 2018	Dec 2019	Dec 2020	Dec 2021
Statutory solvency ratio	256%	234%	225%	218%

Sun Life's projected solvency position after transfer				
	Dec 2018	Dec 2019	Dec 2020	Dec 2021
Statutory solvency ratio	256%	234%	221%	215%

- 8.13. Sun Life produces DST projections which examine the solvency positions of the company before and after the proposed transfer under a number of possible adverse scenarios. The DST projections provided show that the solvency of Sun Life remains satisfactory and above the regulatory minimum requirement. The projections do not show any material difference with and without the transfer. Based on these results, there is no reason to believe that the transfer will prejudice the financial security of the remaining policy holders of Sun Life.

Dynamic solvency testing and risk exposure

FWD and Sun Life risk exposure

- 8.14. The Scheme will transfer the Class G ORSO business, excluding FWD Retained ORSO Business, and the Class G MPF business of FWD into Sun Life. There will be a transfer of risk from FWD to Sun Life.
- 8.15. The DST results show that, whether the Scheme is executed or not, the future solvency positions of both FWD and Sun Life have similar sensitivities under the scenarios tested. The risk exposures are not materially changed after the proposed Scheme. As a result, I consider that the risk exposures for policy holders of the non-transferring policies of FWD and existing Sun Life policy holders will have no material change after implementation of the Scheme.
- 8.16. There is no reason to believe that the Scheme will prejudice the financial security of the contractual rights of the policy holders of the non-transferring policies of FWD and of the existing policy holders of Sun Life.

Investment policy

FWD investment policy

- 8.17. After the proposed transfer, FWD will continue to operate the investment portfolio underlying the remaining policies in exactly the same manner as their respective investment policies and guidelines. Any future changes to these investment policies will undergo the same review process as a normal course of business. There is no reason to believe that this will adversely affect the financial security of the contractual rights of the remaining policy holders of FWD.

Sun Life investment policy

- 8.18. Sun Life will continue to operate the investment portfolio underlying the current policies in exactly the same manner as their respective investment policies and guidelines. Investment policies for Sun Life's existing Class G funds will not be affected by the proposed transfer.

Shareholder dividend policy

FWD shareholder dividend policy

- 8.19. While in Hong Kong there are no regulatory restrictions regarding transfer of surplus capital in excess of the required solvency margin, FWD complies with local regulatory capital requirements. This practice will not be altered as a result of the Scheme.
- 8.20. No shareholder dividend is expected to be distributed as a result of the transfer. Instead the divestiture is expected to reduce the amount of capital required from FWD Group to support future business growth.

Sun Life shareholder dividend policy

- 8.21. Sun Life complies with regulatory capital requirements and follows operational targets commensurate with its risk profile for prudent capital risk management to distribute shareholder dividend. The operational targets are determined by consideration of the following factors:
- The capital required by the HK IA; and
 - An amount of capital in excess to the minimum requirement, which can be used to absorb adverse financial results, fund acquisitions or support growth when raising capital is not advantageous.

The operational targets will not be altered as a result of the Scheme.

Impact of the split of FWD non-Class G plans

- 8.22. Two FWD non-Class G plans have been transferred to FWD's Shareholders' Fund as at 31 December 2016. These two plans are maintained separately as an internal arrangement with FWD's agents. The split of these two non-Class G plans will not lead to any material

adverse impact on the financial security of the policy holders of the non-transferring policies of FWD as it will not impact the reserving methodology and investment policy of the remaining Class G plans. Also, it will not have any impact on the financial security of the existing Sun Life policy holders.

Conclusion

- 8.23. In view of my assessment above, I consider the Scheme will not expose the policy holders of the non-transferring policies of FWD to new risks of significance and will have no material adverse effect on the financial security of these policy holders.
- 8.24. I consider that the Scheme will have no material adverse effect on the financial security of the existing policy holders of Sun Life.

Section 9 Other Considerations

- 9.1. In this section, I have considered other operational areas that may impact the long term policy holders of the Parties if the Scheme proceeds.

Group structure

- 9.2. The group structure of the Parties will remain unchanged after the transfer, with FWD remaining as a wholly-owned subsidiary of FWD Limited after the transfer and Sun Life remaining as a wholly-owned subsidiary of Sun Life Financial of Canada.

Policy holder services

- 9.3. There is no intention to change the level of existing service to the remaining policy holders of FWD as a result of the Transfer. For investment linked policy holders, the existing range of fund choices currently available to them will not be adversely affected as a result of the the proposed transfer.
- 9.4. For the Transferring Policy holders, the existing range of fund choices currently available to them will be maintained after the proposed transfer. In addition, the policy holders will continue being serviced by BestServe (BestServe is a fellow subsidiray of Sun Life, and FWD outsourced part of the pension operations to BestServe).

Reinsurance arrangements

- 9.5. Before the transfer, there is no reinsurance in place with respect to the Transferring Business. For the non-Transferring Business of FWD and the existing business of Sun Life, the existing reinsurance arrangements will not be affected as a result of the transfer.
- 9.6. Sun Life has no intention to have any reinsurance arrangement for the Transferring Business.

Distribution agreement

- 9.7. FWD and Sun Life have entered into a 15-year exclusive distribution agreement allowing Sun Life to offer MPF and ORSO schemes through FWD's agency networks in Hong Kong. There will be no impact to the remaining policy holders of FWD.

Premiums and mandates

- 9.8. All premiums and contributions attributable or referable to the Transferring Policies, on and after the Transfer Date, will be payable to Sun Life.
- 9.9. Any mandate or other instruction in force on the Transfer Date (including, without limitation, any instruction given to a bank by its customer in the form of a direct debit or standing order) and providing for the payment by a banker or other intermediary of premiums payable under or in respect of any transferring Policy to FWD shall, on and from the Transfer Date, take effect as if it had provided for and authorised such payment to Sun Life.
- For MPF, the policy holder involved are the trustees of Sun Life MPF Basic Scheme, Sun Life MPF Comprehensive Scheme and Sun Life MPF Master Trust. Formal communication will be provided to these trustees by FWD at least 1 month before the Transfer Date so that these trustees can further inform the scheme custodian about the future premium payment arrangement.
 - For ORSO, the policy holder involved are the employers of ORSO schemes. Employer notice will be sent to employers by FWD at least 1 month before the Transfer Date. The future premium payment arrangement will be documented in the employer notice.
- 9.10. Any mandate or other instruction in force on the Transfer Date as to the manner of payment of any sum payable by FWD under any of the Transferring Policies shall, on and from the Transfer Date, continue in force as an effective authority to Sun Life.

Variations to the Scheme

- 9.11. The Scheme provides that FWD and Sun Life may apply to the Hong Kong Court and Bermuda Court for consent to modify, vary or amend the terms of the Scheme, provided that:
- the proposed modification, variation or amendment has been approved by the respective Appointed Actuaries and Board of Directors of both FWD and Sun Life;
 - the HK IA and the BMA shall be notified of, and has the right to be heard at any hearing of the Court at which such application is considered; and
 - such application shall be accompanied by a certificate from an independent actuary to the effect that in his opinion, the proposed modification, variation or amendment will not materially and adversely affect the reasonable benefit expectations or the financial security of the holders of Transferring Policies.

Conclusion

- 9.12. I consider the above various operational areas will not have a material adverse impact on the long term policy holders of the Parties and should provide sufficient safeguards in the Scheme to ensure that the Scheme operates as presented.

Section 10 Policy holders Communications

- 10.1. Each shareholder of FWD and Sun Life, and each legal holder of the Transferring Policies of FWD and the policy holder of the Class G policies of Sun Life will receive copies of a circular, enclosed with a summary of the Scheme, further information on the hearings, key assessments of the Independent Actuary and a summary of the Independent Actuary's report ("Statutory Statements") in English and Chinese. The statutory notices (in English and Chinese) will each be published in English and Chinese newspapers respectively, and the Gazette in Hong Kong and Bermuda.
- 10.2. Sun Life and FWD is seeking the Court's direction on the dispensations: (i) the requirements for the setting out of the terms in the Scheme in the Statutory Statements be dispensed with, and that a summary of the terms of the Scheme be set out in the Statutory Statements in place of such full terms; and (ii) the sending of the relevant Statutory Statements to all other long term policy holders of FWD and all non-Class G policy holders of Sun Life be dispensed with.
- 10.3. Dispensation in (i) is sought for the reasons set out below:
- the terms of the entire Scheme are lengthy and complex, and it would be too technical for the members of Sun Life and FWD, and the legal holders of the Transferring Policies;
 - a copy of the Scheme will be made available at the websites of Sun Life and FWD, and available for inspection at the offices of Sun Life and FWD for not less than 21 days from the date of publication of the Statutory Notice. Any interested person who wishes to review the entire Scheme may visit the above websites or offices of Sun Life and FWD.
- 10.4. Dispensation in (ii) is sought for the reasons set out below:
- the Statutory Statements do not relate to the other long term policy holders of FWD and the non-Class G policy holders of Sun Life;
 - the appointed actuary of FWD and the Independent Actuary have opined that the Scheme would not have a material adverse effect on the reasonable benefit expectations and financial security of the policy holders of the non-transferring policies of FWD;
 - the appointed actuary of Sun Life and the Independent Actuary have opined that the Scheme would not have a material adverse effect on the reasonable benefit expectations and financial security of the existing policy holders of Sun Life;
 - distribution of the relevant Statutory Statement to all other long term policy holders of FWD and the non-Class G policy holders of Sun Life will likely give rise to unnecessary confusion;
 - distribution of the relevant Statutory Statement to all the other long term policy holders of FWD and the non-Class G policy holders of Sun Life will impose unnecessary

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- administrative and financial burden on FWD and Sun Life, without any real benefits to such policy holders; and
- interpretation of "policy holders" for the purposes of Section 24 of the Ordinance should mean the trustees or employers to whom such policies are issued and the members of the relevant policies to whom a benefit has become due and payable.
- 10.5. Notwithstanding the dispensation in (ii), all the other policy holders will be appropriately informed of the proposed transfer through the:
- statutory notice that will be published in the Government of the Hong Kong Special Administrative Region Gazette and [the South China Morning Post and the Hong Kong Economic Times];
 - copies of the Court Petition, of the relevant Statutory Statement, of the Scheme and of the Independent Actuary's Report will be made available for inspection by all policy holders at the offices of FWD, Sun Life and Baker & McKenzie; and
 - a copy of the Court Petition, of the relevant Statutory Statement, of the Scheme and of the Independent Actuary's Report will be posted in the websites of FWD and Sun Life on the date of publication of the statutory notice, and maintain that posting until an order sanctioning the Scheme is made on the Court Petition.
- 10.6. I consider the dispensation in (i) should not have a material adverse impact on each member of FWD and Sun Life and each legal holder of the Transferring Policies of FWD. Further, the Scheme should not have a material adverse effect on the reasonable benefit expectations and financial security of the policy holders of the non-transferring policies of FWD and all non-Class G policy holders of Sun Life, hence the dispensation in (ii) should not have a material adverse impact on them.
- 10.7. Sun Life and FWD policy holders who feel they will be negatively affected by the Scheme may put their objections to the Court either in writing, by attending the hearing or by asking a representative to raise their objection. In dealing whether to sanction the Scheme, the Court will consider these objections. I will also consider them in coming to my view on the appropriateness of the Scheme.
- 10.8. Sun Life and FWD shall, pursuant to section 24(3)(d) of the Ordinance, make copies of the Statutory Statements, of the Court Petition, of the Scheme and of the Independent Actuary's Report open for inspection at the office of FWD at 28/F, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong; the office of Sun Life at 10/F, Sun Life Tower, The Gateway, 15 Canton Road, Kowloon, Hong Kong, and the office of Baker & McKenzie, the solicitors for the Joint Petitioners, at 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, between 9 a.m. to 5 p.m., on normal business days (Monday to Friday (except public holidays))

for 21 days from the date of publication of the statutory notice; and FWD Bermuda, Sun Life and Baker & McKenzie shall maintain a register of the names of persons who inspect the documents.

- 10.9. Sun Life and FWD (as the case may be) shall, pursuant to section 24(4) of the Ordinance, furnish copies of the Court Petition and the Independent Actuary's Report to any person who asks for one at any time before an order sanctioning the Scheme is made on the Court Petition.

APPENDIX A: TERMS OF REFERENCE

General Requirements

- A1. The Independent Actuary shall have a duty to act independently and this duty is paramount and overrides any obligation to the person from whom he has received instructions or by whom he is paid.
- A2. Evidence presented to the Hong Kong Court and/or the Bermuda Court should be, and should be seen to be, the independent product of the Independent Actuary uninfluenced by the exigencies of the instruction or court proceedings.
- A3. The Independent Actuary should provide independent assistance to the Hong Kong Court and/or the Bermuda Court where appropriate, by way of objective unbiased opinion in relation to matters within his expertise. He should never assume the role of an advocate.
- A4. The Independent Actuary should not omit to consider material facts within his knowledge which could detract from his concluded opinion.
- A5. The Independent Actuary should make it clear when a particular question or issue falls outside his expertise.
- A6. If the Independent Actuary's opinion is not properly researched because he considers that insufficient data is available, then this must be stated with an indication that the opinion is no more than a provisional one.
- A7. In a case where the Independent Actuary who has prepared a report could not assert that the report contained the truth, the whole truth and nothing but the truth without some qualification, that qualification should be stated in the report.
- A8. If the Independent Actuary changes his view on a material matter having read another expert's report or for any other reason, such change of view should be communicated in writing (through legal representatives) without delay to the Company, and where appropriate to the Hong Kong Court and/or the Bermuda Court.
- A9. The Independent Actuary may communicate with the HK IA and/or the BMA as he considers appropriate in connection with the services and the Scheme Report provided in connection with the appointment as Independent Actuary.

Schedule 2

Scope of the work of the Independent Actuary to the Hong Kong Scheme and/or the Bermuda Scheme

Any report to be prepared by the Independent Actuary including without limitation the Scheme Report is to consider the terms of the Hong Kong Scheme and/or the Bermuda Scheme generally and the likely effects which the Hong Kong Scheme and/or the Bermuda Scheme will have on the policy holders (and Scheme participants if required) of the Classes G long term policies underlying the external ORSO and MPF business involved in the Hong Kong Scheme and/or of the Class E long term business involved in the Bermuda Scheme as well as on the non-Transferring Policy holders of both FWD and Sun Life.

In particular such report will consider the following specific matters:

- The impact of the Hong Kong Scheme and/or the Bermuda Scheme on the financial security of the different groups and generations of policy holders (and Scheme participants if required) involved in the Hong Kong Scheme and/or the Bermuda Scheme.
- A review of, and opinion on the fairness of, proposals to combine any funds to the extent that any such combinations are included in the Hong Kong Scheme and/or the Bermuda Scheme (either as at the effective date or subsequently), and consideration of any further covenants or undertakings that may be required to ensure that each category of policy holder is treated fairly.
- A review of, and opinion on the fairness of, any mechanisms to be implemented at the same time as the Hong Kong Scheme and/or the Bermuda Scheme, but not included in the Hong Kong Scheme and/or the Bermuda Scheme, to provide financial support to any of the funds involved in the Hong Kong Scheme and/or the Bermuda Scheme.
- A review of the capital management policy to be adopted by the Companies following implementation of the Hong Kong Scheme and the Bermuda Scheme.

Part of the Class G business will not be transferred and will be retained by FWD. The carve-out of the retained portion from the transfer will also be covered in the Independent Actuary's review.

The Independent Actuary's review and report will address generally the way in which the Companies have conducted their Classes G long term business under the Hong Kong Scheme and Class E long term business under the Bermuda Scheme but taking into account the particular circumstances of each class of business to be transferred. It will deal inter alia with the following aspects:

- Memorandum, and the Articles of Association, at least insofar as these affect the rights, expectations and interests of policy holders (and Scheme participants if required).
- The terms of the policies issued by each of the Companies.
- Promotional or marketing materials which would influence the reasonable expectations of policy holders (and Scheme participants if required).
- The existing and proposed internal working arrangements relating to the financial management of the long term business fund of Classes G under the Hong Kong Scheme and the long term business fund of Class E under the Bermuda Scheme, including the operational and administrative arrangements which will apply to the policies to be transferred under the terms of the Hong Kong Scheme and/or the Bermuda Scheme.
- The terms and conditions expected to be imposed by the Hong Kong Scheme and/or the Bermuda Scheme to be presented to the Hong Kong Court and/or the Bermuda Court, including the views expressed by the governing body or management of each of the Companies.
- The terms of the previous Schemes of transfer concerning the policy holders (and Scheme participants if required) of the Companies, if any.

The above list is not intended to be exclusive to any other aspects which may be identified during the completion of the project and which are considered to be relevant.

The Independent Actuary shall not be directly involved in the formulation of the Hong Kong Scheme or the Bermuda Scheme although the Independent Actuary should be expected to give guidance during the evolution of the detailed proposals on those issues which concern him, or which he considers unsatisfactory.

The Independent Actuary will not provide any advice with respect to the merits of the Hong Kong Scheme and/or the Bermuda Scheme.

Schedule 3

Disclosure of prior Hong Kong assignments undertaken for the Companies and their related parties

The Hong Kong projects undertaken by Milliman Limited for FWD and its related companies over the last 10 years are as follows:

1. Embedded Value review in 2015, 2016, 2017 and 2018;
2. Financial Projections and Business Plan Review in 2015, 2016, 2017 and 2018;
3. M&A support (market entry, actuarial due diligence, appraisal support) from 2015 to 2019;
4. Product review and product proposition support;
5. Appointed Actuary Services for FWD Singapore;
6. ALM, risk appetite and economic balance sheet support from 2015 to 2019;
7. Prophet Liability and ALS support from 2015 to 2019.

The Hong Kong projects undertaken by Milliman Limited for Sun Life and its related companies over the last 10 years are as follows:

1. M&A support (market entry, actuarial due diligence, appraisal support) for various countries from 2011 to 2019.
2. High level advice regarding the regulatory, reserving (GL7 and smoothing) and capital issues associated with operating Class G business in Hong Kong in 2016;
3. Strategy review in 2011, 2013;
4. Reinsurance strategy review in 2012;
5. Participating business analysis in 2011.

APPENDIX B: KEY SOURCES OF DATA

Documents related to the Scheme

- B1. The Scheme pursuant to section 24 of the Ordinance (Cap. 41) and section 25 of the Bermuda Insurance Act 1978 for the transfer to Sun Life of FWD's Class G business, as filed with the Hong Kong Court and the Bermuda Court.
- B2. Appointed Actuary's Reports of FWD and Sun Life on the proposed transfer of Class G business of FWD to Sun Life.
- B3. GL7 required provision reports showing minimum required GL7 reserves of FWD before transfer, Sun Life before transfer, and of combined operations as a result of the proposed transfer, dated 31 December 2018.

FWD

- B4. Articles of Association of the company and Certificate of Compliance from HK IA governing operation of the Hong Kong branch.
- B5. Dynamic Solvency Testing reports showing solvency positions of FWD before transfer, dated 31 December 2018.
- B6. Risk Governance Structure of FWD.
- B7. FWD Operational Risk Committee, Asset-Liability Management Committee and Board structure.
- B8. Recent Board of Directors meeting minutes.
- B9. Internal audit reports on pension governance and framework for year end 2015.
- B10. ORSO crediting rate policy.
- B11. ORSO crediting rate recommendation report for the year end 2015, 2016, 2017 and 2018.
- B12. Investment Guarantee Reserve for MPF and ORSO business for the year end 2014, 2015, 2016, 2017 and 2018.
- B13. FWD Investment Policy and Mandate, including ALS guidelines, investment strategy and policies, for the year end 2017.
- B14. Risk management policy including approach to currency mismatch risk.
- B15. Audited accounts and financial statements of FWD, including details of any off-balance sheet contingencies and contingent liabilities, for the year end 2016, 2017 and 2018.
- B16. Explanatory memorandum for MPF and ORSO business.
- B17. Discretionary benefits illustrations and statements for MPF and ORSO business.
- B18. Historical crediting rate.
- B19. Customer complaints register.

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- B20. Investment management arrangements with external managers.
 - B21. Correspondence with the regulator for the year end 2015, 2016, 2017 and 2018.
 - B22. Legal review of the classification of FWD Class G plans by an External Counsel
 - B23. Ernst & Young Independent Audit Report for the Securities and Future Commission

Sun Life

- B24. Dynamic Solvency Testing results showing solvency positions of Sun Life before transfer, dated 31 December 2018.
- B25. Dynamic Solvency Testing report showing solvency positions of Sun Life after transfer, dated 31 December 2018.
- B26. Fund Structure of Sun Life before and after transfer.
- B27. Sun Life bonus recommendation for year end 2017 and year end 2018.
- B28. Sun Life Investment Policy, including investment strategy and policies, for the year end 2018.
- B29. Audited accounts and financial statements of Sun Life, including details of any off-balance sheet contingencies and contingent liabilities, for the year end 2018.
- B30. 2018 Sun Life Group ALM Business Operating Guideline.

APPENDIX C: PRUDENTIAL REGULATION AUTHORITY HANDBOOK SECTION 2.27 TO 2.40

- C1. In this appendix I set out the guidance in PRA's Handbook Section 2 (The Prudential Regulation Authority's approach to insurance business transfers) on the form of a report on an insurance business prepared by an independent expert.

Scheme report

Section 2.27

- C2. Under section 109 of 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). The PRA would generally expect a Scheme report to contain at least the information specified in 2.30 below before giving its approval.

Section 2.28

- C3. When the PRA has approved the form of a Scheme report, the Scheme promoter may expect to receive written confirmation to that effect.

Section 2.29

- C4. 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 his own opinion on such issues, which may differ from the opinion of the regulators.

Section 2.30

- C5. 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 PRA;
 - a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;
 - whether the independent expert, or his employer, 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 the report and whether any information that they requested has not been provided;
- the extent to which the independent expert has relied on:
 - a) information provided by others; and
 - b) the judgment of others;
- the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;
- their opinion of the likely effects of the Scheme on policy holders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:
 - a) Transferring Policy holders;
 - b) policy holders of the transferor whose contracts will not be transferred; and
 - c) policy holders of the transferee;
- their 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 their opinion, be relevant to policy holders' consideration of the Scheme; and
- for each opinion that the independent expert expresses in the report, an outline of their reasons.

Section 2.31

- C6. 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 policy holders, 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

- C7. 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

- C8. The independent expert's opinion of the likely effects of the Scheme on policy holders should:
- include a comparison of the likely effects if it is or is not implemented;
 - state whether they considered alternative arrangements and, if so, what;
 - where different groups of policy holders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policy holders; and
 - include their views on:
 - a) the effect of the Scheme on the security of policy holders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
 - b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:
 - i. the security of policy holders' contractual rights;
 - ii. levels of service provided to policy holders; or
 - iii. for long-term insurance business, the reasonable expectations of policy holders; and
 - c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policy holders' contractual rights, or for long-term insurance business, their reasonable expectations.

Section 2.34

- C9. The independent expert is not expected to comment on the likely effects on new policy holders, that is, (those whose contracts are entered into after the effective date of the transfer).

Section 2.35

- C10. 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 policy holders;
 - 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

C11. 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 policy holders to participate in profits;
- if any such rights will be diluted by the Scheme, describe how any compensation offered to policy holders 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 policy holders;
- describe the likely effect of the Scheme on the approach used to determine:
 - a) the amount of any non-guaranteed benefits such as bonuses and surrender values ;
and
 - b) 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 policy holders 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 policy holders;
- state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policy holders; 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.

Section 2.37

C12. 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.

Section 2.38

C13. 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 his report, for instance it might depend on future events; or
- 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 means of an order under section 112 of FSMA. The PRA considers any such reductions against 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

C14. 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

C15. 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 latest available financial information in respect of the transferor and transferee;
- any recent economic, financial or regulatory developments; and
- any representations made by policy holders or affected persons that raise issues not previously considered in the scheme report.

APPENDIX D: FINANCIAL SERVICES AUTHORITY HANDBOOK SUP18.2.31G TO 18.2.41G

- D1. 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.

Form of Scheme report

SUP 18.2.31G

- D2. Under section 109 of the Act, 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

- D3. 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

- D4. 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

- D5. 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:
 - a) information provided by others; and
 - b) 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 policy holders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:
 - a) Transferring Policy holders;
 - b) policy holders of the transferor whose contracts will not be transferred; and
 - c) policy holders 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 policy holders' 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

- D6. 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 policy holders, 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

- D7. 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

- D8. The independent expert's opinion of the likely effects of the Scheme on policy holders 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 policy holders are likely to be affected differently by the Scheme, include comment on those differences he considers may be material to the policy holders; and
 - include his views on:
 - a) the effect of the Scheme on the security of policy holders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
 - b) 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:
 - i. the security of policy holders' contractual rights;
 - ii. levels of service provided to policy holders; or
 - iii. for long-term insurance business, the reasonable expectations of policy holders; and
 - c) the cost and tax effects of the Scheme, in so far as they may affect the security of policy holders' contractual rights, or for long-term insurance business, their reasonable expectations.

SUP 18.2.37G

- D9. The independent expert is not expected to comment on the likely effects on new policy holders, that is, those whose contracts are entered into after the effective date of the transfer.

SUP 18.2.38G

- D10. 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 policy holders;
 - state whether, and to what extent, members will receive compensation under the Scheme for any diminution or 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

D11. 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 policy holders to participate in profits;
- if any such rights will be diluted by the Scheme, how any compensation offered to policy holders 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 policy holders.
- describe the likely effect of the Scheme on the approach used to determine:
 - a) the amount of any non-guaranteed benefits such as bonuses and surrender values ; and
 - b) 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 policy holders 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 policy holders;
- state whether the independent expert is satisfied that for each firm the Scheme is equitable to all classes and generations of its policy holders; 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

D12. 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

D13. 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: INSTITUTE OF ACTUARIES (UK) GUIDANCE NOTE 15

GN15: Transfer of Long-term Business of an Authorised Insurance Company - Role of the Independent Actuary

Classification

Recommended Practice.

Legislation or Authority

Insurance Companies Act 1982 (1982, c.50). Schedule 2C, Part I, Paragraph 2(1).

Friendly Societies Act 1992 (1992, c.40). Section 86.

Application

Actuaries invited to act as the 'Independent Actuary' in a transfer under Part I of Schedule 2C to the Insurance Companies Act 1982. Schedule 2C is given effect by Section 49 and was inserted by the Insurance Companies (Third Insurance Directives) Regulations 1994, SI 1994/1696, to replace the previous Sections 49, 49A, 49B, and 50-52. The general principles apply equally to transfers of business by or to friendly societies under the terms of Section 86 of the Friendly Societies Act 1992.

Author

Life Board

Status

Approved under Due Process.

Version	Effective from
1.0	01.06.90
1.1	01.09.90
2	01.01.98

E1 Introduction

- a. Under Part 1 of Schedule 2C of the Insurance Companies Act 1982, any Scheme which provides for the whole or part of the long-term business carried on in one or more EU member states by a UK insurance company (or in the UK, in the case of a non-UK insurance company) to be transferred to another body requires the prior sanction of the court. 'UK company' is given a specific meaning in Section 5(4) of the Insurance Companies Act 1982 and a non-UK company accordingly means any company carrying on insurance business which is not a UK company. The court will consider the Scheme on the basis of a petition by one of the parties, and the petition must be accompanied by a report on the terms of the Scheme by an Independent Actuary.
- b. The purpose of this Guidance Note is to advise an actuary invited to act as the Independent Actuary in a Schedule 2C transfer of the statutory and professional responsibilities such an appointment entails.
- c. The Independent Actuary should ascertain whether any business has been written through branches outwith the UK and, if so, whether such business is to remain with the transferor or to be transferred under Schedule 2C or under some similar legislation. In the latter case, a report on similar lines to that required under Schedule 2C may be required.

E2 Factors Influencing Acceptance of an Appointment as Independent Actuary

- a. Before accepting an appointment as the Independent Actuary in any particular case, an actuary must consider whether he or she has relevant practical knowledge and experience. Such experience would necessarily include familiarity with the role and responsibilities of an Appointed Actuary and with the types of long-term business transacted by the companies concerned. An actuary must also disclose to all the parties any direct or indirect interest the actuary may have or have had in any of them. Clearly, an actuary cannot act if such interest would, in the opinion of any party or its legal advisers, be likely to prejudice an actuary's status in the eyes of the court. In case of doubt, the situation should be discussed with the supervisory authority and the Secretary to the Professional Affairs Board before the appointment is accepted.
- b. The Act prescribes that a report on the terms of the Scheme by an Independent Actuary accompanies the petition to the court and the Independent Actuary's prime responsibility is, therefore, to the court. The Act does not prescribe who should appoint the Independent Actuary; in practice, the appointment is made by one of the parties to the Scheme – usually the party that will be petitioning the court. The purpose of the appointment is to secure an independent opinion for the court on the likely effects of the Scheme on the long-term policy holders of the companies concerned. It would, therefore, be improper for the Independent Actuary to take instructions from any of the parties on what should be included in or excluded from the report; or to be denied access by any of the parties to persons the Independent Actuary may wish to interview, or to information, reports and documents which the Independent Actuary may reasonably consider material to the formulation of an opinion on the likely effects of the Scheme on the long-term policy holders of the companies concerned. An actuary should ensure that this is understood by the parties concerned before accepting an appointment.

- c. If, for any reason other than the abandonment of the Scheme, the Independent Actuary's appointment is revoked or the Independent Actuary resigns prior to that individual's report being submitted to the court or being circulated (whether in summary or otherwise) to long-term policy holders, that individual should consider whether the circumstances are such that that individual should make them known to the supervisory authority. Any actuary offered an appointment as an Independent Actuary should enquire if the appointment has previously been accepted and subsequently vacated by another actuary; if so, an actuary should take all reasonable steps to establish the circumstances in which the revocation of the previous actuary's appointment or the resignation of the previous actuary took place.

E3 The Extent of the Independent Actuary's Involvement

- a. Given that the court is unlikely to sanction the Scheme if the Independent Actuary indicates serious dissatisfaction with its terms, it is in the interest of all the parties that, once an actuary has been appointed, the Independent Actuary is informed of the draft terms and provisions of the proposed Scheme at the various stages of its development. The Independent Actuary should therefore actively seek such information and be prepared to indicate with impartiality any terms or provisions which by their inclusion in or omission from the Scheme as drafted, as the case may be, would be likely to cause the Independent Actuary to express reservations about the Scheme in the report.
- b. The Secretary of State for Trade and Industry is entitled to be heard by the court when a petition is being considered. It is therefore advisable for the Independent Actuary to contact the supervisory authority at an early stage, with the knowledge of the petitioner, to establish whether there are any matters pertaining to the Scheme which the supervisory authority wishes to draw to the Independent Actuary's attention. The Independent Actuary should maintain this line of communication until the Scheme is presented to the court.
- c. The amount of investigative work that the Independent Actuary will need to do will depend on the circumstances of the case. The Independent Actuary should communicate with the Appointed Actuaries of all affected companies. It is reasonable for the Independent Actuary to expect the Appointed Actuary of the transferor company to provide such valuations of the assets and liabilities as the Independent Actuary may require, and to disclose information on such matters as how bonus rates have been determined in recent years in respect of any with-profit business. If the transferee company already has a long-term business fund of its own, similar information from the Appointed Actuary of that company may be necessary. It has become customary in cases of any complexity for the petition to be accompanied by a report from any Appointed Actuary concerned, although this is not a legal requirement. There may also be private actuarial reports to one or more of the parties, production of which would assist the Independent Actuary in appraising the terms of the Scheme. The Independent Actuary must, however, form an independent judgment on the quality of the information supplied, the reasonableness of the work of other actuaries, and, therefore, the extent of any investigative or verification work the Independent Actuary needs to do.
- d. The Independent Actuary might be asked to attend a meeting with the policy holders organised by the management of one of the companies. If so, the Independent Actuary

should consider carefully whether to do so would give the impression that the Independent Actuary was not completely independent. If the Independent Actuary should decide to attend the meeting, the Independent Actuary's position should be properly explained, and nothing that the Independent Actuary does or says at the meeting should undermine the perception of independence.

- e. In the case of a transfer involving a composite company, writing both long-term and general business, the Independent Actuary will need to understand the relevance of the general insurance business to the security of the long-term policy holders, and the Independent Actuary may need to seek independent specialist advice on this.
- f. Special considerations may also be called for where the transfer forms part of a chain of events including restructure, reinsurance or changes in ownership, and the Independent Actuary should seek explanations regarding corporate plans to the extent necessary for the whole picture to be clear.
- g. If the Appointed Actuary of any affected company has held that position only for a relatively short period of time, it might be appropriate for the Independent Actuary to seek information from the previous Appointed Actuary.
- h. Other documents the Independent Actuary will normally wish to examine in relation to each of the companies involved in the transfer will include:
 - its memorandum and articles of association and, if the company is currently trading, its latest annual report and accounts and supervisory returns;
 - the latest report submitted by its Appointed Actuary to the directors in accordance with paragraphs 8.1 to 8.5 of GN1, together with any recent reports submitted in accordance with GN 2;
 - participating guides issued by the company in recent years;
 - any reports, actuarial or otherwise, dealing specifically with PRE;
 - the bases used for own-charge illustrations;
 - sample quotations and policy documents which state or illustrate how policies will participate in profits, qualify for discretionary benefits, or be subject to future variations in charges;
 - any reports dealing with investment policy of the long-term business fund;
 - any reports evaluating alternative Schemes; and
 - any other relevant documents associated with the transfer.
- i. In addition, the Independent Actuary should ask about the operational plans of any company which, after the effective date, will have policy holders who fall to be considered in the Independent Actuary's report.

E4 The Report

- a. The Independent Actuary's report on the terms of the Scheme is required by Paragraph 2(1) of Schedule 2C to accompany the petition, but the court – unless it has otherwise directed – will not determine the application unless a statement setting out the terms of the Scheme and containing a summary of the Independent Actuary's report "sufficient to indicate the opinion of the actuary on the likely effects of the Scheme on the long term policy holders of the companies concerned" has been sent to each of those policy holders and to every member of those companies (Paragraph 2(2)(b) of Schedule 2C). The full report, being a public document, must be available for inspection by any person and therefore by any policy holder or member. The Independent Actuary should therefore bear in mind in preparing the report that policy holders and members may rely on it when considering how to cast their vote in any extraordinary general meeting called to approve the terms of the Scheme, and any member of the public may rely on it when considering whether or not to make representations to the court about the likely adverse effect of the Scheme on him or her.
- b. Similar considerations apply to the summary of the Independent Actuary's report which has to be sent to policy holders and members of the companies concerned. It is the Independent Actuary's responsibility to ensure that the contents of the summary are adequate, and that neither it nor any document which will accompany it gives a misleading impression of the findings in the full report. The summary need not contain background factual matter contained in the accompanying documents.
- c. It follows from 4a above that the Independent Actuary needs to consider and report as appropriate on the likely effects of the Scheme on (i) all transferring long-term policy holders, (ii) any long-term policy holders of the transferor company whose policies will remain with that company, and (iii) any long-term policy holders of the transferee company. Whilst not directly concerned with the effect of the Scheme on those who become policy holders on or after the date when, subject to the approval of the court, it will become effective, the Independent Actuary will need to consider whether the development plans of any of the companies involved may adversely affect policy holders with whom the Independent Actuary is concerned.
- d. It is a responsibility of the directors and managers of the relevant insurance company to consider alternative arrangements in order that the company may fulfil its obligations to conduct its business with due regard to the interests of policy holders and potential policy holders. The term 'Independent Actuary' might be interpreted by members of the public to indicate that the actuary was advising on the relative merits of one Scheme of transfer against other possible arrangements, although this is not specifically required by the legislation. Consistent with the nature of the legal requirements, the report must include a comparison of the likely effects on the long-term policy holders of the relevant companies if the Scheme of transfer being presented to the court is or is not implemented. In addition, the Independent Actuary should state clearly whether or not reports of alternative arrangements were considered.

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- e. The contents of the Independent Actuary's report will be influenced by the circumstances of each case; the following are, however, some of the matters which the Independent Actuary should, where appropriate, cover in it:
- The name of the party which has appointed the Independent Actuary and a statement of who is bearing the costs of that appointment.
 - A statement of the Independent Actuary's professional qualification.
 - Whether or not the Independent Actuary has a direct or indirect interest in any of the parties which might be thought to influence the Independent Actuary's independence; if the Independent Actuary has an interest, it should be disclosed.
 - The scope of the report in accordance with Paragraph 4d above.
 - The purpose of the Scheme.
 - A summary of the terms of the Scheme in so far as they are relevant to the contents of the Independent Actuary's report.
 - What documents and reports the Independent Actuary has considered in relation to each of the companies involved in the transfer and whether there was any additional information which was requested but not provided.
 - The cost and tax consequences of the Scheme, in so far as these will affect policy holders' funds.
 - The effect of the Scheme on the security of policy holders' contractual benefits.
 - The effect of the Scheme on the nature and value of any rights of policy holders to participate in profits. In particular, if any such rights will be diluted by the Scheme, how any compensation being offered to those policy holders as a group (which might take the form of an injection of funds, an 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 policy holders.
 - The likely effect of the Scheme on the approach used to determine the amounts of non-guaranteed benefits such as reversionary (or similar bonus which is added periodically over the term of the contract) and terminal bonuses and surrender values, and the levels of discretionary charges, for example under unit-linked policies; and what safeguards are provided by the Scheme against a subsequent change of approach that could act to the detriment of existing policy holders of either company and is not due to external circumstances beyond its control.
 - 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 ability of the companies to meet throughout the lifetime of existing policies the reasonable expectations of the holders of those policies.
 - In the case of any mutual company involved in the Scheme, the effect of the Scheme on the proprietary rights of members of that company and, in particular, the significance of any loss or dilution of the rights of those members to secure or prevent further constitutional changes which could affect their expectations as policy holders (for

example, losing the ability to change the board and therefore control over a board's decision to convert to a closed fund). The Independent Actuary should state whether, and to what extent, members will receive compensation under the Scheme for any diminution in their proprietary rights, and comment on its appropriateness. Also, when commenting on the fairness of the Scheme, the Independent Actuary should pay particular attention to any differences in treatment between policy holders with voting rights and those without. It will assist the Independent Actuary if the issues involved are adequately explained in the directors' circular to policy holders.

- Which matters, if any, the Independent Actuary has not taken into account or evaluated in the report that might nevertheless be relevant to policy holders' consideration of the Scheme.
 - The Independent Actuary's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term policy holders; whether the Independent Actuary is satisfied that for each of the companies concerned the Scheme is equitable to all classes and generations of its policy holders; and whether for each relevant company the Scheme places obligations on the directors, or provides for future certification by its Appointed Actuary, sufficient in the Independent Actuary's opinion for the protection of those expectations.
- f. Where the Independent Actuary expresses an opinion in the report, the Independent Actuary should outline the reasons for it.

APPENDIX F: DYNAMIC SOLVENCY TESTING (“DST”) RESULTS AND ASSUMPTIONS

FWD and Sun Life results before and after transfer

The tables below show the DST results for the six prescribed scenarios.

Solvency position of FWD before transfer

	2019 YE	2020 YE	2021 YE
Baseline	225%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	224%	222%	222%
Prescribed scenario 2	213%	205%	200%
Prescribed scenario 3	150%	150%	150%
Prescribed scenario 4	150%	185%	222%
Prescribed scenario 5	214%	196%	180%
Prescribed scenario 6	242%	265%	292%
<u>Compound scenario</u>			
Compound scenario 1	150%	159%	168%
Compound scenario 2	188%	195%	207%
Compound scenario 3	182%	181%	186%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	215%	216%	218%
Additional plausible adverse scenario 2	159%	169%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-1%	-3%	-3%
Prescribed scenario 2	-12%	-20%	-25%
Prescribed scenario 3	-75%	-75%	-75%
Prescribed scenario 4	-75%	-40%	-3%
Prescribed scenario 5	-11%	-29%	-45%
Prescribed scenario 6	17%	40%	67%
<u>Compound scenario</u>			
Compound scenario 1	-75%	-66%	-57%

	2019 YE	2020 YE	2021 YE
Compound scenario 2	-37%	-30%	-18%
Compound scenario 3	-43%	-44%	-39%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	-10%	-9%	-7%
Additional plausible adverse scenario 2	-66%	-56%	-45%

Solvency position of FWD after transfer

	2019 YE	2020 YE	2021 YE
Baseline	225%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	224%	222%	222%
Prescribed scenario 2	213%	205%	200%
Prescribed scenario 3	150%	150%	150%
Prescribed scenario 4	150%	186%	223%
Prescribed scenario 5	214%	196%	180%
Prescribed scenario 6	242%	265%	292%
<u>Compound scenario</u>			
Compound scenario 1	150%	159%	168%
Compound scenario 2	188%	195%	207%
Compound scenario 3	182%	181%	186%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	215%	216%	218%
Additional plausible adverse scenario 2	159%	169%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-1%	-3%	-3%
Prescribed scenario 2	-12%	-20%	-25%
Prescribed scenario 3	-75%	-75%	-75%
Prescribed scenario 4	-75%	-39%	-2%
Prescribed scenario 5	-11%	-29%	-45%
Prescribed scenario 6	17%	40%	67%

<u>Compound scenario</u>			
Compound scenario 1	-75%	-66%	-57%
Compound scenario 2	-37%	-30%	-18%
Compound scenario 3	-43%	-44%	-39%
<u>Additional Plausible Adverse Scenario</u>			
Additional Plausible Adverse Scenario 1	-10%	-9%	-7%
Additional Plausible Adverse Scenario 2	-66%	-56%	-45%

Solvency position of Sun Life before transfer

	2019 YE	2020 YE	2021 YE
Baseline	234%	225%	218%
<u>Prescribed scenario</u>			
Prescribed scenario 1	229%	214%	202%
Prescribed scenario 2	225%	205%	187%
Prescribed scenario 3	161%	143%	112%
Prescribed scenario 4	114%	200%	295%
Prescribed scenario 5	227%	207%	187%
Prescribed scenario 6	245%	246%	247%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	114%	198%	284%
Plausible adverse scenario 2	204%	155%	107%
Plausible adverse scenario 3	228%	209%	192%
Plausible adverse scenario 4	228%	220%	213%
Plausible adverse scenario 5	159%	157%	157%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-11%	-16%
Prescribed scenario 2	-9%	-20%	-31%
Prescribed scenario 3	-73%	-82%	-106%
Prescribed scenario 4	-120%	-25%	77%
Prescribed scenario 5	-7%	-18%	-31%
Prescribed scenario 6	11%	21%	29%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-120%	-27%	66%
Plausible adverse scenario 2	-30%	-70%	-111%
Plausible adverse scenario 3	-6%	-16%	-26%
Plausible adverse scenario 4	-6%	-5%	-5%
Plausible adverse scenario 5	-75%	-68%	-61%

Solvency position of Sun Life after transfer

	2019 YE	2020 YE	2021 YE
Baseline	234%	221%	215%
<u>Prescribed scenario</u>			
Prescribed scenario 1	229%	211%	199%
Prescribed scenario 2	225%	201%	184%
Prescribed scenario 3	161%	139%	108%
Prescribed scenario 4	114%	191%	286%
Prescribed scenario 5	227%	204%	184%
Prescribed scenario 6	245%	242%	244%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	114%	194%	280%
Plausible adverse scenario 2	204%	153%	105%
Plausible adverse scenario 3	228%	206%	189%
Plausible adverse scenario 4	228%	216%	210%
Plausible adverse scenario 5	159%	154%	155%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-10%	-16%
Prescribed scenario 2	-9%	-20%	-31%
Prescribed scenario 3	-73%	-82%	-107%
Prescribed scenario 4	-120%	-30%	71%
Prescribed scenario 5	-7%	-17%	-31%
Prescribed scenario 6	11%	21%	29%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-120%	-27%	65%
Plausible adverse scenario 2	-30%	-68%	-110%
Plausible adverse scenario 3	-6%	-15%	-26%
Plausible adverse scenario 4	-6%	-5%	-5%
Plausible adverse scenario 5	-75%	-67%	-60%

Critical Assumptions in DST

F1. Summary of critical assumptions

The base scenarios use a realistic set of assumptions for investment return, management expenses and new business sales used to project the financial position over the forecast period of three years.

FWD specific assumptions

For the base scenario, assumptions for investment return are as of 31 December 2018, whereas assumptions for management expenses and new business sales are based on the internal business planning conducted in year 2018. The solvency position as of 31 December 2018 is taken as the starting position of the projections under all scenarios.

Sun Life specific assumptions

The base scenario is a realistic set of assumptions that are used to forecast Sun Life's financial position and condition over the forecast period. The base scenario is consistent with the Hong Kong Statutory Business Plan submitted to the IA.

The starting point of the projection is 31 December 2018 and the opening assets, liabilities, net assets and solvency ratio are the actual 2018 year end statistics as at 31 December 2018.

F2. Summary of scenarios

The scenarios conducted under the DST are as prescribed under the Guidance Note issued by the Actuarial Society of Hong Kong and required by the HK IA, with the aim to investigate the likely solvency of the companies under a range of adverse scenarios in the near future.

F3. Detailed descriptions of scenarios

The prescribed scenarios illustrated in the DST are as follows:

- *Prescribed scenario 1: deterioration in claims experience*

Throughout the forecast period, allow for:

- 15% deterioration in mortality rates for life business;
- 15% deterioration in morbidity rates;
- 15% increase in incidence rates for disability, accident and sickness; and
- No adjustment in mortality for annuity business (it is noted that this approach is different from the standard AGN7 approach but it is considered to be appropriate due to the lack of materiality of the annuity business).

- *Prescribed scenario 2: deterioration in persistency experience*

Throughout the forecast period, allow for an increase or decrease in lapse rates of 5%, depending on which alternative produces the most adverse results, by product.

- *Prescribed scenario 3: drop in interest rates, combined with a market crash*

Throughout the forecast period, and commencing immediately after the valuation date:

- Interest rates are set to 70% of the rates projected in the base scenario; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

- *Prescribed scenario 4: rise in interest rates, combined with a market crash*

- Interest rates are set to be 130% of the base scenario or the base scenario rates plus 2%, whichever is greater; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

- *Prescribed scenario 5: high new business growth rates*

High growth throughout the forecast period, with growth rate being 30%, or 150% of plan growth rate if higher, and with a reasonable increase in expenses, consistent with the higher growth.

- *Prescribed scenario 6: low new business growth rates*

Low growth throughout the forecast period, with year 1 sales being 80% of current year, followed by 20% drop for years 2 and 3, without any saving in expenses other than commission and commission-related expenses that are directly related to the new sales volume.

The compound scenarios illustrated in FWD DST are as follows:

- *Compound scenario 1: pandemic outbreak*

Throughout the forecast period, allow for:

- Excess death of 0.75 per 1,000 at all ages in year 1;
- Excess morbidity of 1.50 per 1,000 at all ages in year 1;
- 15% increase in incidence rates for disability , accident and sickness;
- Equity and real estate market value dropped by 25%

- *Compound scenario 2: HKD/USD Spread Widening*

Throughout the forecast period, allow for:

- 1% increase in USD government bond yield;
- Flat HKD bond yield;
- 1.5% increase in inflation assumption;
- Policy holder dividend increased by 15%;
- Universal life credit rate increased by average 0.2%

- *Compound scenario 3: HKD/USD Unpegged*

Throughout the forecast period, allow for:

- USD and SGD depreciated by 10%;
- Equity and real estate value drops by 25%;
- 20% shock lapse of USD policies.

The plausible adverse scenarios illustrated in FWD DST are as follows:

- *Plausible adverse scenario 1: Operational Incidents*

- This is an operational scenario. It happens when an error in unit pricing calculation occurs for Class C and G business that adversely impacts the accuracy of the net asset value, and a business operation disruption, resulting from the system failure for business other than Class C and G.

- *Plausible adverse scenario 2: Counterparty Default Events*

- This is a counterparty default scenario. It happens when an economic recession triggering the defaults of major corporate bond issuers and the reinsurers.

The plausible adverse scenarios illustrated in Sun Life DST are as follows:

- *Plausible adverse scenario 1: Credit crises*

This scenario tests a credit crisis triggering the following changes in economic assumptions.

- Short-term rates, medium-term rates and long-term rates increase immediately in 2019 by 1.00%. Interest rates then stay at this shocked level over the projection period.
- Credit spreads of corporate bonds increase immediately in 2019 by 1.00% (rating BBB or above) and 1.25% (below BBB), then stay at this shocked level over the projection period.
- Equity market value drops by 20% in 2019 and then equity continues to grow at the base scenario rate for the following years.
- Public and private bond and mortgage default rates are 500% of the base scenario in 2019 and the same as base scenario for the following years.

- *Plausible adverse scenario 2: USD / HKD non parallel drop*

This scenario tests the economic impact from a non-parallel drop of USD and HKD interest rates. The shocked economic assumptions are the following:

- For USD economics, short-term rates, medium-term rates and long-term rates gradually drop by 1.00% by the end of the first year and then stay 1.00% lower than the base scenario over the remaining projection period.
- For HKD economics, short-term rates, medium-term rates and long-term rates gradually drop by 0.50% by the end of the first year and then stay 0.50% lower than the base scenario over the remaining projection period.
- Credit spreads of corporate bonds gradually increase by 0.50% by the end of the first year and then stay 0.50% higher than the base scenario over the remaining projection period.
- HKD-USD currency swap spread differential adversely changes by 100bps at the end of the first year and then stay at this level over the projection period.
- Equity market value drops by 12.5% per annum during the projection period.
- Public and private bond and mortgage default rates are 200% of the base scenario over the projection years.

- *Plausible adverse scenario 3: Anti-selective policy holder behaviour*

This scenario assumes structural changes in the marketplace leading to some forms of anti-selection against the Company. Therefore, this scenario explores the effects of increased sophistication in the marketplace leading to anti-selective policy holder behavior through the opportunistic exercise of premium payment flexibility, partial withdrawal and voluntary termination of contracts.

- 15% deterioration in mortality rates.
- 15% deterioration in morbidity rates.
- Lapse rates will change +/-25%, depending on which alternative produces the most adverse results by product.
- For Universal Life and linked products, the premium persistency will be set to 75% of base scenario and partial withdrawal turns to 10% in 2019.

■ *Plausible adverse scenario 4: Operational incidents*

This scenario examines the resilience of the business to operational incidents, particularly for classed C and G business that have a relatively low minimum solvency requirement under the Ordinance. This scenario assumes the following:

- An error was detected after the 2018 year end reporting. In particular, 10% of the account value of Class C and Class G business was recorded and reported by 15% lower than the true account value due to an investment allocation mistake. Consequently, the Company will have to compensate the reduced payments to policy holders to correct the account value and will receive a regulatory fine of HKD 5 million.
- This event has an adverse impact on the Company's reputation, which causes 10% additional lapses for Class C products in first two years and the marketing expense in year 2019 and 2020 are HKD 20 million higher to acquire new business.

■ *Plausible adverse scenario 5: Flu Pandemic & reinsurer default*

This scenario examines the impact of an outbreak of a worldwide flu pandemic which negatively impacts many insurers' mortality / morbidity claims. Meanwhile reinsurers are severely impacted because of the large amount of quota share reinsurance that has been ceded, which leads to default of some reinsurers. The main assumptions are the following:

- The Company experiences higher mortality claims in 2019, in aggregate around 7 per thousand higher mortality rate. Claim experience returns to base in the following period.
- Critical Illness (CI) and Hospital Income (HI) claim experience in 2019 is also adversely impacted, resulting in negative income impact. The negative income impact is assumed to be 2% of the actual 2018 CI Claims and 25% of the actual 2018 HI claims.
- This scenario assumes that RGA (the most significant reinsurer for the Company) defaults in 2019, causing 50% of the above excess claims not recovered from RGA. This scenario also assumes that the Company will recapture the ceded business from

RGA and find a new reinsurer to cover the recaptured business at the end of 2019. The reinsurance rates for both inforce and future new business continue to be guaranteed but are increased by 20%.

APPENDIX G: THE TRANSFERRING POLICIES

G.1 List of Class G Policies – MPF Schemes as at 30 April 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

G.2 List of Class G Policies – ORSO Schemes as at 30 April 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
10	Dixmont Limited Provident Fund Scheme	18000602	16-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
11	Double Wire Limited Provident Fund Scheme	19000779	17-May-96	FWD Capital Guaranteed Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
12	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	11000207	27-Jun-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
13	EL Grande Holdings Limited Provident Fund Scheme	15000932	12-May-98	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
14	Fatti Components Limited Employees' Retirement Scheme	11000031	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
15	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	15000214	07-Feb-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
16	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
17	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
18	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
19	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
20	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
21	Hong Kong Federation of Women's Centres Provident Fund Scheme	11000262	27-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
22	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
23	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
24	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
25	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
26 (*)	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Provident Fund Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
27	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
28	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
29	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
30	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
31	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
32	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
33	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
34	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
35	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
36	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
37	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
38	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
39	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
40	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
41	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
42	Product Marketing Mayborn Limited Provident Fund Scheme	15000608	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
43	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
44	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
45	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
46	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
47	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
48	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
49	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
50	St. James' Settlement Provident Fund Scheme (1)	11000117	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
51	Sunny Creations Limited Provident Fund Scheme	11000354	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
52	Technik Industrial Co. Ltd. Provident Fund Scheme	11000299	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
53	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	15001034	12-Jul-11	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
54	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
55	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
56	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
57	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
58	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
59	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
60	Essendant Hong Kong Limited Provident Fund Scheme	5000302	15-Dec-11	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
61	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
62	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
63	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
64	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
65	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
66	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
67	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
68	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
69	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
70	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	810001023	24-Oct-11	FWD Capital Guaranteed Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
71	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
72	Caritas Retirement Fund	n/a	01-Jan-08	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-
73	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-
74	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-

(*) The scheme will be terminated, with the target date being 1 July 2019.

APPENDIX H: INDEPENDENT OPINION ON THE IMPACT OF THE SPLIT OF FWD NON-CLASS G PLANS ON FWD CLASS G POLICY HOLDERS AS AT 30 JUNE 2018

H.1 Introduction

- 1.1. I, Clement Bonnet, have been appointed to act as the Independent Actuary pursuant to Section 24 of the Hong Kong Insurance Ordinance Chapter 41 ("Ordinance", formerly Hong Kong Insurance Companies Ordinance), and as the Actuary pursuant to Section 25 of the Bermuda Insurance Act 1978, to provide an independent opinion on the terms and likely effects of the proposed scheme (the "Scheme") for the transfer of certain long term pension business from FWD Life Insurance Company (Bermuda) Limited ("FWD") to Sun Life Hong Kong Limited ("Sun Life").
- 1.2. The long term business involved is referred to as the "Transferring Business" and comprises the Class G insurance policies, excluding the five internal retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"), written by FWD before the date the Scheme takes into effect (the "Transfer Date").
- 1.3. Prior to 31st December 2016, the following Agency Plans and Staff Plan (which the amount involved is HK\$696m) have been included in FWD's Class G Fund:

Members	Plan	Account Balance 31 st Dec 2016 (HK\$m)
FWD Staff	<i> FWD Life Insurance Company (Bermuda) Limited Retirement Scheme	
FWD Agents	<ii> Long Service Incentive Scheme	675
	<iii> Long Service Bonus Scheme (for all agents)	
	<iv> VNB Fund Scheme	
	<v> Victory Fund Scheme	
	<vi> Lions Fund	21
	<vii> Long Service Bonus Scheme (for agency heads)	

(*) Given liabilities of <vi> and <vii> have been transferred as at 31 December 2016, the amounts shown in the table above are as at 31 December 2016.

- 1.4. I am not aware of any issues in respect of the Class G plan <i>.
- 1.5. According to FWD, there were no written insurance policies issued by FWD in respect of the Class G Agency Plans (<ii> to <v>). Hence, the contributions made to the Class G Fund by the Agency Plans were not referable to any written Class G policies.
- 1.6. Following a legal review of the classification of FWD Class G plans by an External Counsel, two internal agency Class G plans (<vi> & <vii>) which did not strictly meet the criteria of retirement scheme principles as laid out in Schedule 1 (Classes of Insurance Business) of the Ordinance have been transferred to FWD's Shareholders' Fund as at 31 December 2016. These two plans are

maintained separately as an internal arrangement with FWD's agents and are neither part of the Transferring ORSO Business nor part of FWD Retained ORSO business at the Transfer Date.

- 1.7. These were the irregularities identified in respect of the FWD's Class G Fund. The Insurance Authority (formerly Office of the Commissioner of Insurance) has been notified of the irregularities and the remediation plan by FWD in August 2016 and has requested FWD to ensure at all times proper classification of policies in accordance with Part 2 of the First Schedule to the Ordinance.
- 1.8. I have been appointed to provide an independent opinion on the effect of this split on the remaining FWD Class G policy holders as at 30 June 2018.

H.2 Review of the proper documentation of FWD class G plans (<ii> to <v>)

- 1.9. For those Class G Agency Plans without written insurance policies issued by FWD as specified in clause 1.4 above, indeed, FWD has sought legal opinion on the proper documentation of these Class G plans and I have relied upon that advice. I understand there is no legal requirement under the Ordinance for FWD to issue formal policies for both Class G and non-Class G businesses, respectively. I understand there is no specified form of formal policies for Class G business, which is a statutory creation and not a "true" contract of insurance. It is a question of whether the schemes have characteristics which mean they fall within Class G business and need to be accounted for accordingly. Having said that, to have proper documentation, by way of Declaration of Trust, FWD has declared that it holds the assets of the relevant schemes on trust for the benefit of the members covered under the schemes and to enter into the insurance policies in its capacity as trustee with FWD (in its capacity as insurer) to meet the liabilities of the schemes with the Class G Policy. The respective scheme rules of each scheme to describe eligibility and benefits are also attached to the relevant Class G policies.

H.3 Review of the split of FWD non-class G plans (<vi> & <vii>)

Transfer of liabilities as at 31 December 2016

- 1.10. The account balance arising from the two non-Class G agency plans is equal to HK\$ 21 million as at 31 December 2016, which represents less than 1% of the total account balance of FWD Class G business as at 31 December 2016. A non-interest bearing inter-fund balance equal to the account balance has been set up as at 31 December 2016 and has been subsequently settled in the first half of 2018 as detailed in paragraph 1.12.
- 1.11. While the account balance is transferred to FWD Shareholders' Fund as at 31 December 2016, the other statutory reserves of Class G long term business – namely the provision for investment guarantee ("GL7 reserve") and the additional smoothing reserves – are no longer required for the two non-Class G agency plans and will remain within FWD retirement fund. Therefore, total reserves for the Class G business will not be adversely impacted by the split of FWD non-class G plans. Moreover, the split of FWD non-class G plans will not affect the reserving methodology and investment policy of the Transferring Policy holders of FWD and the policy holders of the non-transferring policies of FWD. After the transfer of liabilities, an annual actuarial investigation was made into the financial condition of FWD's long term business pursuant to section 18 of the Ordinance with the review of Class G business as at 31st December 2016 covered by the then GL7 Report.

Transfer of assets during the first half of 2018

- 1.12. The actual asset transfer did not happen as at 31 December 2016; instead a non-interest bearing inter-fund balance equal to the account balance was set-up between FWD retirement fund (payable) and Shareholders' Fund (receivable). The settlement of this non-interest bearing inter-fund balance was performed in the first half of 2018, in conjunction with the settlement of assets to meet withdrawal demands of the fund, for a total amount of HKD 344 million. The assets selected and divested have been mutually agreed between Sun Life and FWD such that the key characteristics of the asset portfolio backing the FWD Class G business remain similar before and after the divestment. The Table below shows some of the key metrics considered as part of this analysis:

Assets backing FWD Class G business as at end of March 2018		
Key metrics	Before divestment (% total assets)	After divestment (% total assets)
Asset mix		
Cash	2%	1%
Equity	15%	15%
Bond	84%	84%
Currency mix		
HKD	82%	82%
USD	18%	18%
Duration	3.39	3.41
Yield (%)	2.97	2.98
Average rating	A+	A+

- 1.13. In addition, the strategic asset allocation for the assets backing the Transferring ORSO Business and FWD Retained ORSO Business remain unchanged before and after the divestment. Assets backing the two internal agency plans (<vi> & <vii>) will follow the strategic asset allocation of the Shareholders' Fund but the discretionary crediting rate will be based on the crediting rate of FWD Retained ORSO business (irrespective of the asset performance of the Shareholders' Fund), leading to no material adverse effect on the benefit expectations of the policy holders of the two internal agency plans. Overall, the apportionment of assets is not expected to have any material impact on the reasonable benefit expectations and financial security of the Transferring Policy holders of FWD and the policy holders of the non-transferring policies of FWD.

- 1.14. The split of these two non-Class G plans will not lead to any material adverse impact on the benefit expectations of the remaining FWD Class G plans. FWD has no intention to change the investment strategy or the crediting rate philosophy as a result of the split. Any future review change will undergo the same review process as the one before the split.

H.4 Conclusion

1.15. In summary of my assessment above, I have concluded that the remedial actions for rectification of the irregularities are done properly and will have no material adverse impact on the interests of the holders of FWD Class G policies:

- The remedial actions will have no material adverse effect on the reasonable benefit expectations of FWD Class G policies.
- The remedial actions will have no material adverse effect on the financial security of FWD Class G policies.

**Supplementary Report of the Independent Expert
dated 14 August 2020**

**Transfer of certain Class G
insurance policies underlying the
FWD MPF and ORSO business
from FWD Life Insurance
Company (Bermuda) Limited to
Sun Life Hong Kong Limited**

Supplementary Report of the Independent Expert

Prepared for:

**FWD Life Insurance Company (Bermuda) Limited
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Section 1 Introduction

Background

- 1.1. When an application is made to the High Court of the Hong Kong Special Administrative Region, Court of First Instance (the “Hong Kong Court”) for an order to sanction the transfer of long term insurance business from one insurer to another, it must be accompanied by a report on the terms of the Scheme by an independent actuary in conformance to Section 24 of the Insurance Ordinance, Chapter 41 of the Laws of Hong Kong (the “Ordinance”).
- 1.2. Similarly, when an application is made to the Supreme Court of Bermuda (the “Bermuda Court”) for an order to sanction a transfer of long term insurance business, it must be accompanied by a report on the terms of the Scheme by an Approved Actuary (“Approved Actuary”) in conformance to Section 25 of the Bermuda Insurance Act 1978.
- 1.3. I, Clement Bonnet, have been appointed by both FWD Life Insurance Company (Bermuda) Limited (“FWD”) and Sun Life Hong Kong Limited (“Sun Life”) as the Independent Actuary in connection with the proposed scheme of transfer (the “Scheme”) of certain long term pension business from FWD to Sun Life. The long term business involved is referred to as the “Transferring Business” and comprises the Class G insurance policies, excluding the four internal retirement plans for FWD agents and staff which will remain with FWD¹ (namely: Long Service Incentive Scheme (“LSIS”), Long Service Bonus Scheme (“LSBS”), VNB Fund Scheme and FWD Life Insurance Company (Bermuda) Limited Retirement Scheme, collectively called “FWD Retained ORSO Business”), written by FWD before the Transfer Date. The Class G policies are currently issued to trustees or employers of mandatory provident funds (“MPF”) schemes and occupational retirement (“ORSO”) schemes. The trustees or employers taking out these Class G insurance policies are collectively referred to herein as the “Transferring Policy holders”. FWD and Sun Life are collectively referred to herein as the “Parties”.
- 1.4. My appointment as the Independent Actuary has been noted by the Hong Kong Insurance Authority (“HK IA”) and the Bermuda Monetary Authority (“BMA”).
- 1.5. I prepared a report dated 26 June 2019 (“my Main Report”) in which I considered the proposed transfer.

Scope of this Supplementary Report

- 1.6. The purpose of this report (the “Supplementary Report”) is to provide an updated assessment of the likely effects of the proposed transfer in light of any developments or significant events since the date of my Main Report. I also consider whether the conclusions reached in my Main Report remain valid in the light of updated financial information received,

¹ Five internal retirement plans were mentioned in my Main Report. The Victory Fund Scheme has been removed in the Supplementary Report as this Scheme was fully vested and all payments were made to FWD agents (except for two FWD agents who have not responded to FWD’s invitation to claim for their benefits).

- any other relevant significant events subsequent to the date of finalisation of my Main Report.
- 1.7. In reporting on the Scheme I owe a duty to the Hong Kong Court and the Bermuda Court to help them 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. Details of the scope of my appointment, my qualifications, disclosures and the reliances and limitations applying to my work are provided in my Main Report.
- 1.8. This Supplementary Report should be read in conjunction with my Main Report, and both should be considered in their entirety. The reliances and limitations listed in Section 1 of my Main Report also apply equally to this report. In particular, this report does not provide financial or other advice to individual policy holders.
- 1.9. I understand that copies of this Supplementary Report will be made available on both FWD and Sun Life websites prior to the final court hearing (the “Sanctions Hearing”).
- 1.10. I have been provided with free access to the information that I requested as necessary to conduct my work. The key documents that have been made available to me include the Scheme, the Reports of the Appointed Actuaries of the Parties as at 31 December 2018 (the “Reports of the Appointed Actuaries”) on the Scheme, statutory reserve reports, crediting rates and investment policies, financial projections before and after the Scheme implementation and information related to management of the Parties. In addition, I have also been given unrestricted access to and held discussions with various representatives of the Parties.
- 1.11. The financial analysis in Section 3 of this Supplementary Report is based on audited financial information as at 31 December 2019. Other than as set out in the following sections, I am not aware of any recent developments that would materially affect my assessment of the proposed transfer.
- 1.12. This Supplementary report is based on data available to me and Milliman at, or prior to 14 August 2020, and takes no account of developments after that date. Neither I nor Milliman is under any obligation to update or correct inaccuracies which may become apparent in the report.

Structure of this Supplementary Report

- 1.13. This Supplementary Report is structured as follows:
- Section 2 includes updates on relevant developments since I prepared my Main Report;
 - Section 3 provides an update of the financial position of FWD and Sun Life as at 31 December 2019;
 - Section 4 contains an overall conclusion.
- 1.14. An update of key statistics as at 31 March 2020 is provided in Appendix B.

Section 2 Relevant developments

Introduction

- 2.1. Since my Main Report has been produced there have been a number of developments of relevance to the Scheme, which I describe below.

Key statistics as at 31 December 2019

FWD

- 2.2. The following table shows the details of the long term and retirement business of FWD as at 31 December 2019:

31 December 2019 Class	Number of policies	Amount of net liability (HK\$m)
A	363,478	59,197
C	17,919	5,765
D	2,731	229
I	269	5
Total	384,397	65,196

31 December 2019 Class	Number of participating schemes	Account balance (HK\$m)	Amount of net liability (HK\$m)
G – MPF	4,160 (*)	863	889
G – ORSO	72	2,090	2,402
Total	4,232	2,953	3,291

(*) The number of participating schemes refers to the number of employers while Appendix C lists out the number of MPF Class G policies.

Figures may not be additive due to rounding.

- 2.3. There is no change to the fund structures of FWD as at 31 December 2019.

Sun Life

- 2.4. The following table shows the details of the long term insurance business of Sun Life as at 31 December 2019:

31 December 2019 Class	Number of policies	Amount of net liability (HK\$'m)
A - Non-ring fenced	378,429	48,668
A - Ring fenced	101	45
C - Non-ring fenced	57,932	11,494
C - Ring fenced	2	9
I - Non-ring fenced	1,171	74
I - Ring fenced	2	16
Total	437,637	60,306

31 December 2019 Class	Number of participating schemes	Account balance (HK\$'m)	Amount of net liability (HK\$'m)
G - MPF - Non-ring fenced (*)	4,160 (**)	863	-
G - ORSO - Non ring-fenced (DA fund)	25	66	77
G - ORSO - Ring-fenced (DA fund)	55	834	965
H - ORSO - Ring fenced	4	694	694
Number of ORSO employer with both Class G and H Policies	(2)	-	-
MPF Class G Policies where FWD is the issuer of the insurance policies	(4,160)	(863)	-
Total	82	1,594	1,736

(*) Newly acquired MPF Capital Guaranteed Portfolio, where FWD remains as the issuer of the insurance policies.

(**) The number of participating schemes refers to the number of employers while Appendix A lists out the number of MPF Class G policies.

Figures may not be additive due to rounding.

- 2.5. There is no change to the fund structures of Sun Life as at 31 December 2019.

The Transferring Business

- 2.6. There is no change to the definition of the Transferring business as at 31 December 2019. On the Transfer Date, FWD will transfer all Class G policies under and in respect of the MPF schemes and ORSO schemes, including all certificates, supplemental coverages, endorsements, riders and ancillary agreements, written by FWD before the Transfer Date, except the four internal ORSO retirement plans for FWD agents and staff which will remain with FWD ("FWD Retained ORSO Business"). In particular, assets backing all liabilities of the Transferring Business (i.e. the sum of Account Balance, minimum GL7 reserve and additional smoothing reserves as defined in my Main Report in paragraph 7.7) will be

transferred to Sun Life and, therefore, there will be no surplus / shortfall between total assets and total liabilities as a result of the way the statutory reserve has been set up.

- 2.7. The following tables show the details of the Class G long term business of FWD as at 31 December 2018 and 31 December 2019.

Class G long term business of FWD			
31 December 2018	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
Class			
MPF	4,400	841	867
ORSO	81	2,049	2,306
Transferring ORSO Business	77	1,614	1,812
FWD Retained ORSO Business	4	435	494
Total	4,481	2,890	3,174

Class G long term business of FWD			
31 December 2019	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
Class			
MPF (*)	4,160	863	889
ORSO	72	2,090	2,402
Transferring ORSO Business	68	1,617	1,853
FWD Retained ORSO Business	4	473	549
Total	4,232	2,953	3,291

(*) The number of participating schemes refers to the number of employers while Appendix C lists out the number MPF Class G policies.

Figures may not be additive due to rounding.

- 2.8. As at 31 December 2018, the long term business of FWD comprised 4,400 MPF schemes and 81 ORSO schemes while it comprised 4,160 MPF schemes and 72 ORSO schemes as at 31 December 2019. The amount of net liability of Class G ORSO business has increased between 31 December 2018 and 31 December 2019 from HK\$ 2,306 million to HK\$ 2,402 million. The amount of net liability of Class G MPF business has also increased from HK\$867 million as at 31 December 2018 to HK\$889 million as at 31 December 2019.
- 2.9. After transfer, both FWD and Sun Life fund structures will remain in line with what is described in my Main Report. In particular, to incorporate the Transferring Business, Sun Life will establish three new segregated Class sub-funds, namely new ORSO non-guaranteed sub fund, new ORSO capital guaranteed sub-fund and new MPF sub-fund.

Considerations affecting benefit expectations of Class G policy holders

- 2.10. Considerations affecting benefit expectations of retirement business include discretionary elements such as non-guaranteed crediting rates, fees and charges and the rights of the Transferring Policy holders.
- 2.11. In particular, the discretionary benefits of FWD ORSO business are affected by a discretionary crediting rate which is subject to a minimum guaranteed rate. As at 31 December 2019, only minimum guaranteed crediting rate of 0% p.a. was applicable. The discretionary crediting rate is determined based on four criteria that are unchanged since my Main Report :
- (i) the actual net investment return (the investment spread of 0.95% has remained unchanged since 31 December 2018);
 - (ii) the stability of return to policy holders;
 - (iii) the long-term supportability of the crediting rate; and
 - (iv) the competitiveness of the crediting rate.
- 2.12. Based on the latest ORSO crediting rate recommendation approved by FWD Hong Kong Asset-Liability Management Committee ("HK ALMCO") and Board dated 12 November 2019 and 13 December 2019 respectively, a crediting rate of 2.20% p.a. was declared from October 2018 to September 2019 (it was also 2.20% p.a. from October 2017 to September 2018). An interim crediting rate of 1.50% is effective from January 2020 (it was also 1.50% in 2019) and has been determined using the same methodology as the one described in my Main Report.
- 2.13. Overall, there are no changes to the approach used to determine discretionary elements since my Main Report has been prepared. In particular the approach followed by FWD to determine the crediting rate remains unchanged. In addition, the future governance procedures and safeguards provided by Sun Life against a change of approach that could have an adverse effect on policy holders are unchanged.

Conclusion

- 2.14. I am satisfied that none of the above developments affects the conclusions of my Main Report. The financial positions of FWD and Sun Life are considered in further detail in Section 3 of this Supplementary Report.

Section 3 The updated financial position as at 31 December 2019

Introduction

- 3.1. This section provides an update of the Class G policy reserves as at 31 December 2019 and also describes the financial position of FWD and Sun Life as at 31 December 2019.

Policy reserves of the transfer as at 31 December 2019

- 3.2. In line with the methodology described in my Main Report, FWD statutory reserve of Class G long term business is equal to the sum of
- accumulation of contributions paid into the fund, reduced by applicable expenses, fees or charges, and increased by interest credited in accordance with the applicable guaranteed rate or declared rate ("Account Balance");
 - provisions for investment guarantee ("GL7 reserves"); and
 - additional smoothing reserves.
- 3.3. The table below shows the Statutory Reserve of the Transferring Business before and after the Transfer using two different valuation dates, i.e. 31 December 2018 and 31 December 2019:

HK\$ million	FWD – Before transfer			Sun Life – After transfer		
31 December 2018	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	841	20	6	841	20	6
Transferring ORSO Business	1,614	128	70	1,614	128	91
Total	2,455	148	76	2,455	148	97

HK\$ million	FWD – Before transfer			Sun Life – After transfer		
31 December 2019	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	863	14	12	863	14	12
Transferring ORSO Business	1,617	159	76	1,617	159	101
Total	2,480	173	88	2,480	173	113

Figures may not be additive due to rounding.

3.4. At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business, in line with the approach described in my Main Report,

- Similar to FWD approach before the transfer, the minimum GL7 reserve for ORSO business (HK\$211 million) will be split between the Transferring ORSO Business and FWD Retained ORSO Business based on the Account Balance (HK\$159 million and HK\$51 million for the Transferring ORSO Business and FWD Retained ORSO Business respectively). As mentioned in my Main Report, even though historically the two types of business were managed in aggregate, this split was assessed to be reasonable given
 - (i) economic assumptions are set equal between the two blocks.
 - (ii) average historical lapse experience is close between the two blocks (although recent experience has been more volatile and has shown differences) and the minimum GL7 is not materially sensitive to change in lapses as shown in the tables below:

Historical lapse experience for the two blocks of business			
Lapse experience	Total	FWD Retained ORSO Business (*)	FWD Transferring ORSO Business
2015	6.3%	5.3%	6.6%
2016	6.6%	7.9%	6.2%
2017	8.5%	8.5%	8.5%
2018 (**)	9.9%	1.0%	13.1%
2019	6.5%	3.1%	7.4%
Average	7.6%	5.2%	8.4%

(*) includes the two agency plans which did not strictly meet the criteria of retirement scheme principles.

(**) 2018 experience appears to be driven by volatility in claims. 2017

Lapse sensitivity tests on the minimum GL7 reserve		
Minimum GL7 reserve expressed as a percentage of Account Balance	31 December 2018	31 December 2019
Base case scenario	8.76%	10.87%
Lapse assumption increases by 50% (i.e. 150% of the rates under the base case)	8.40%	10.72%
Lapse assumption decreases by 50% (i.e. 50% of the rates under the base case)	9.43%	11.31%

(iii) a quantitative assessment was made as at year end 2015 showing that the account value is an appropriate driver to split the GL7 reserve.

- The entire ORSO smoothing reserve, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO Business, will be transferred to Sun Life, leading to a higher smoothing reserve for the Transferring Business after the transfer (HK\$101 million after the transfer while HK\$76 million before the transfer).

3.5. The table below shows the Statutory Reserve of FWD Retained ORSO Business before and after the Transfer using two different valuation dates, i.e. 31 December 2018 and 31 December 2019.

HK\$ million		Before transfer			After transfer	
31 December 2018	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	435	38	21	435	38	21

HK\$ million		Before transfer			After transfer	
31 December 2019	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	473	51	25	473	51	25

Figures may not be additive due to rounding.

3.6. Even though the entire ORSO smoothing reserve will be transferred to Sun Life at Transfer Date, FWD will set up smoothing reserve for FWD Retained ORSO Business after the transfer equal to the smoothing reserve before the transfer based on the split of the total smoothing reserve based on the Account Balance (HK\$25 million). The smoothing reserve will be funded from FWD Shareholders' Fund. Given the relatively limited size of this smoothing reserve, setting up this additional reserve will have an immaterial impact on the overall solvency position of FWD and therefore on the financial security of policy holders of the non-transferring policies of FWD.

Financial position as at 31 December 2019

3.7. From the audited accounts as at 31 December 2019, the valuation of FWD, under the Hong Kong statutory basis, included total liabilities of HK\$100,442 million. This was compared with total assets of HK\$111,379 million. When all assets are included (including the non-distributable surplus of HK\$391 million) except the amount of capital for FWD Vietnam and FWD Malaysia (HK\$2,117 million), there are HK\$6,339 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,872 million.

31 December 2019 - HKFRS HK\$ million	FWD Total
Assets	
Intangible Assets	0
Held-to-maturity financial assets	3,553
Available-for-sale financial assets	67,666
Financial assets at fair value through profit or loss	11,755
Loans and receivables	1,158
Deferred Tax Assets	0
Reinsurance Assets	14,174
Other Assets	10,339
Insurance receivables	2,733
Total Assets	111,379
Insurance contract liabilities(*)	92,341
Investment contract liabilities	2,498
Liabilities held for sale	2,791
Other Liabilities	2,812
Total Liabilities	100,442
Net assets	10,937
Non-distributable surplus	391
Capital for FWD Vietnam and FWD Malaysia	(2,117)
Statutory net assets	9,211
Required Solvency margin	2,872
Surplus over Statutory Solvency Margin	6,339

Figures may not be additive due to rounding.

Exchange rate as at 31 December 2019 is US\$1 = HK\$7.78645184.

() Including non-distributable surplus of HK\$391m.*

- 3.8. Before transfer, as at 31 December 2019, the Hong Kong statutory valuation of Sun Life included total liabilities of HK\$77,535 million. This was compared with total assets of HK\$84,977 million. When all assets are included there are HK\$7,442 million assets in excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,369 million.

31 December 2019 - HKFRS	Sun Life - Before transfer		
HK\$ million	Class G	Shareholders Fund and Others	Total
<u>Assets</u>			
Intangible Assets	-	1,099	1,099
Plant & equipment	-	85	85
ROU assets	-	524	524
Investments in securities	1,249	74,525	75,774
Reinsurance assets	-	3,306	3,306
Interest in a subsidiary	2	318	320
Investments in associate	-	221	221
Loans and other receivables	-	1,029	1,030
Deferred Tax Asset	-	-	-
Deferred Origination Cost (DOC)	-	808	808
Amount due to Shareholders' Fund / Amount due from Long Term business	(51)	51	-
Other Assets	1	679	680
Bank balances & cash	5	1,125	1,130
Total Assets	1,207	83,770	84,977
<u>Liabilities</u>			
Insurance contract liabilities	1,042	59,300	60,342
Investment contract liabilities	-	5,203	5,203
Amount on deposits	-	8,117	8,117
Deferred Tax Liabilities	-	182	182
Other Liabilities	165	3,526	3,690
Total Liabilities	1,207	76,328	77,535
Net assets			7,442
Required Solvency margin			2,369
Surplus over Statutory Solvency Margin			5,072

Figures may not be additive due to rounding.

- 3.9. After transfer, as at 31 December 2019, the Hong Kong statutory valuation of Sun Life included total net liabilities of HK\$80,302 million. This was compared with total assets of HK\$87,743 million. When all assets are included there are HK\$7,442 million assets in

excess of total liabilities. This is higher than the Hong Kong required minimum solvency margin of HK\$2,369 million.

31 December 2019 - HKFRS	Sun Life - After transfer		
HK\$ million	Class G	Shareholders Fund and Others	Total
<u>Assets</u>			
Intangible Assets	-	1,199	1,199
Plant & equipment	-	85	85
ROU assets	-	524	524
Investments in securities	4,015	74,525	78,540
Reinsurance assets	-	3,306	3,306
Interest in a subsidiary	2	318	320
Investments in associate	-	221	221
Loans and other receivables	-	1,029	1,030
Deferred Tax Asset	-	0	0
Deferred Origination Cost (DOC)	-	808	808
Amount due to Shareholders' Fund / Amount due from Long Term business	(51)	51	0
Other Assets	1	679	680
Bank balances & cash	5	1,025	1,030
Total Assets	3,973	83,770	87,743
<u>Liabilities</u>			
Insurance contract liabilities	3,808	59,300	63,108
Investment contract liabilities	-	5,203	5,203
Amount on deposits	-	8,117	8,117
Deferred Tax Liabilities	-	182	182
Other Liabilities	165	3,526	3,690
Total Liabilities	3,973	76,328	80,301
Net assets			7,442
Required Solvency margin			2,369
Surplus over Statutory Solvency Margin			5,072

Figures may not be additive due to rounding.

- 3.10. The table below compares free asset ratios before and after the transfer as at 31 December 2017, 31 December 2018 and 31 December 2019. As at 31 December 2017 and as at 31 December 2018, Sun Life's free asset ratio was higher than FWD's free asset ratio while

the ratio is closer as at 31 December 2019 given FWD injected US\$225 million (HK\$1,752 million) of capital in August 2019.

31 December 2017 HK\$ million	FWD before transfer	Sun Life after transfer
<u>Total company</u>		
Total liabilities including solvency margin (A)	86,609	70,512
Surplus over solvency margin (B)	4,035	4,122
Free asset ratio (B) / (A)	4.7%	5.8%
31 December 2018 HK\$ million	FWD before transfer	Sun Life after transfer
<u>Total company</u>		
Total liabilities including solvency margin (A)	92,918	68,586
Surplus over solvency margin (B)	4,278	4,258
Free asset ratio (B) / (A)	4.6%	6.2%
31 December 2019 HK\$ million	FWD before transfer	Sun Life after transfer
<u>Total company</u>		
Total liabilities including solvency margin (A)	103,314	82,670
Surplus over solvency margin (B)	6,339	5,072
Free asset ratio (B) / (A)	6.1%	6.1%

- 3.11. As at 31 December 2019, there is no additional solvency margin requirement in Hong Kong for Class G business on top of the existing GL7 reserve requirement. However the comparison of the overall solvency position of both FWD and Sun Life should also help assess the financial security of policy holders. The table below compares the solvency ratios as at 31 December 2017, 31 December 2018 and 31 December 2019 for both FWD and Sun Life before transfer.

Solvency ratio before transfer	FWD (*)	Sun Life (**)
31 December 2017	244%	257%
31 December 2018	233%	256%
31 December 2019	321%	266%

(*) The solvency ratios exclude the amount of capital for FWD Malaysia and FWD Vietnam and includes the capital injection of US\$225 million. The increase in solvency ratio between 31 December 2018 and 31 December 2019 is due to a capital injection of US\$ 225 million in August 2019.

(**) The solvency ratios reflect the modified coinsurance signed in August 2016.

3.12. Sun Life's solvency ratio has slightly increased from 256% as at 31 December 2018 to 266% as at 31 December 2019. FWD's solvency ratio increased significantly between 31 December 2018 and 31 December 2019 due to a capital injection of US\$225 million in August 2019. Overall, and similar to the conclusions of my Main Report, the actual solvency positions of both Sun Life and FWD remain well above the minimum regulatory requirement as at 31 December 2019.

3.13. Insurance companies are required to examine annually the financial position of the overall business under a number of adverse scenarios as prescribed by the Actuarial Guidance Note 7 ("AGN7") on Dynamic Solvency Testing ("DST") issued by the Actuarial Society of Hong Kong and required by the HK IA. I have been provided with these DST results for FWD and Sun Life with and without the Transferring Business as at 31 December 2019. I have considered these results to assess the impact of the Scheme on the Transferring Business

- The future solvency positions of both FWD and Sun Life are not materially impacted by whether or not the proposed transfer is executed. In particular the future solvency positions of both FWD before the transfer and Sun Life after the transfer remain satisfactory. In particular it remains above the regulatory requirement under most of the sets of scenarios tested and above 100% under all the scenarios tested.
- The risk exposure of Sun Life total portfolio after transfer appears to be relatively comparable to the risk exposure of FWD before transfer, although FWD may be more materially exposed to certain risks than Sun Life. For both companies, the drop in interest rates, combined with an equity market and real estate shock is the most adverse prescribed scenario (prescribed scenario 3).

As a consequence, I consider that my conclusions in respect of the risk exposures of policy holders remain valid and the risk exposure of policy holders will not be materially impacted by the transfer.

3.14. In addition, the overall solvency position of Sun Life is not materially impacted by whether or not the proposed transfer is executed given the Transferring Business only accounts for less than 5% of the total Sun Life liabilities as at 31 December 2019.

Conclusion

3.15. Based on the paragraphs above, the overall financial position of both FWD and Sun Life (before and after Transfer) has not changed significantly between 31 December 2018 and

31 December 2019. I am satisfied that my conclusions in respect of the financial position of both FWD and Sun Life before and after transfer remain valid.

Section 4 Conclusions

- 4.1. I have considered relevant developments brought to my attention by FWD and Sun Life since the completion of my Main Report. I have not changed my conclusions regarding the likely effects of the Scheme.
- 4.2. In my opinion,
- The Scheme will have no material adverse effect on the reasonable benefit expectations of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the financial security of the Transferring Policy holders of FWD, the policy holders of the non-transferring policies of FWD or the existing policy holders of Sun Life.
 - The Scheme will have no material adverse effect on the level of service to the long term policy holders of FWD and Sun Life.
 - I am satisfied that the Scheme provides sufficient safeguards to ensure that the Scheme operates as presented.

Clement Bonnet
Independent Actuary
14 August 2020



APPENDIX A: DYNAMIC SOLVENCY TESTING (“DST”) RESULTS AND ASSUMPTIONS

FWD and Sun Life results before and after transfer

The tables below show the DST results for the six prescribed scenarios and additional compound and plausible adverse scenarios.

Solvency position of FWD before transfer

	2020 YE	2021 YE	2022 YE
Baseline	206%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	204%	222%	220%
Prescribed scenario 2	196%	206%	202%
Prescribed scenario 3 (*)	150%	150%	150%
Prescribed scenario 4 (*)	150%	219%	278%
Prescribed scenario 5	187%	179%	151%
Prescribed scenario 6	212%	251%	278%
<u>Compound scenario</u>			
Compound scenario 1 (*)	150%	168%	169%
Compound scenario 2	163%	163%	150%
Compound scenario 3	170%	186%	183%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	195%	215%	216%
Additional plausible adverse scenario 2 (*)	150%	175%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-2%	-3%	-5%
Prescribed scenario 2	-10%	-19%	-24%
Prescribed scenario 3 (*)	-56%	-75%	-75%
Prescribed scenario 4 (*)	-56%	-6%	53%
Prescribed scenario 5	-19%	-46%	-75%
Prescribed scenario 6	6%	26%	52%
<u>Compound scenario</u>			

	2020 YE	2021 YE	2022 YE
Compound scenario 1 (*)	-56%	-57%	-57%
Compound scenario 2	-43%	-62%	-75%
Compound scenario 3	-36%	-39%	-42%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	-11%	-10%	-9%
Additional plausible adverse scenario 2 (*)	-56%	-51%	-45%

(*) Additional management actions have been taken into account

Solvency position of FWD after transfer

	2020 YE	2021 YE	2022 YE
Baseline	206%	225%	225%
<u>Prescribed scenario</u>			
Prescribed scenario 1	204%	222%	220%
Prescribed scenario 2	196%	206%	202%
Prescribed scenario 3 (*)	150%	150%	150%
Prescribed scenario 4 (*)	150%	221%	279%
Prescribed scenario 5	187%	179%	151%
Prescribed scenario 6	212%	251%	278%
<u>Compound scenario</u>			
Compound scenario 1 (*)	150%	168%	169%
Compound scenario 2	163%	163%	150%
Compound scenario 3	170%	186%	183%
<u>Additional plausible adverse scenario</u>			
Additional plausible adverse scenario 1	195%	216%	217%
Additional plausible adverse scenario 2 (*)	150%	175%	180%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-2%	-3%	-5%
Prescribed scenario 2	-10%	-19%	-23%
Prescribed scenario 3 (*)	-56%	-75%	-75%

Prescribed scenario 4 (*)	-56%	-5%	54%
Prescribed scenario 5	-19%	-46%	-75%
Prescribed scenario 6	6%	26%	52%
<u>Compound scenario</u>			
Compound scenario 1 (*)	-56%	-57%	-57%
Compound scenario 2	-43%	-62%	-75%
Compound scenario 3	-36%	-39%	-42%
<u>Additional Plausible Adverse Scenario</u>			
Additional Plausible Adverse Scenario 1	-10%	-10%	-9%
Additional Plausible Adverse Scenario 2 (*)	-56%	-51%	-45%

(*) Additional management actions have been taken into account

Solvency position of Sun Life before transfer

	2020 YE	2021 YE	2022 YE
Baseline	275%	226%	209%
<u>Prescribed scenario</u>			
Prescribed scenario 1	270%	215%	193%
Prescribed scenario 2	262%	201%	173%
Prescribed scenario 3 (*)	192%	134%	112%
Prescribed scenario 4	152%	210%	285%
Prescribed scenario 5	264%	200%	170%
Prescribed scenario 6	283%	250%	249%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	202%	194%	216%
Plausible adverse scenario 2	144%	194%	251%
Plausible adverse scenario 3 (*)	209%	134%	110%
Plausible adverse scenario 4	268%	209%	184%
Plausible adverse scenario 5	269%	219%	202%
Plausible adverse scenario 6	213%	171%	160%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-11%	-16%
Prescribed scenario 2	-13%	-25%	-36%
Prescribed scenario 3 (*)	-83%	-92%	-97%
Prescribed scenario 4	-123%	-16%	76%
Prescribed scenario 5	-11%	-26%	-39%
Prescribed scenario 6	8%	24%	40%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-73%	-32%	7%
Plausible adverse scenario 2	-131%	-32%	42%
Plausible adverse scenario 3 (*)	-66%	-92%	-99%
Plausible adverse scenario 4	-7%	-17%	-25%
Plausible adverse scenario 5	-6%	-7%	-7%
Plausible adverse scenario 6	-62%	-55%	-49%

(*) Additional management actions have been taken into account

Solvency position of Sun Life after transfer

	2020 YE	2021 YE	2022 YE
Baseline	271%	223%	206%
<u>Prescribed scenario</u>			
Prescribed scenario 1	266%	212%	190%
Prescribed scenario 2	258%	198%	170%
Prescribed scenario 3 (*)	188%	129%	107%
Prescribed scenario 4	147%	205%	280%
Prescribed scenario 5	260%	197%	168%
Prescribed scenario 6	279%	247%	246%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	198%	191%	215%
Plausible adverse scenario 2	140%	190%	246%
Plausible adverse scenario 3 (*)	204%	130%	108%
Plausible adverse scenario 4	263%	205%	181%
Plausible adverse scenario 5	265%	216%	200%
Plausible adverse scenario 6	209%	168%	158%
<u>Change from baseline</u>			
<u>Prescribed scenario</u>			
Prescribed scenario 1	-5%	-11%	-16%
Prescribed scenario 2	-13%	-25%	-36%
Prescribed scenario 3 (*)	-83%	-94%	-99%
Prescribed scenario 4	-124%	-18%	74%
Prescribed scenario 5	-11%	-26%	-38%
Prescribed scenario 6	8%	24%	40%
<u>Plausible adverse scenario</u>			
Plausible adverse scenario 1	-73%	-32%	9%
Plausible adverse scenario 2	-131%	-33%	40%
Plausible adverse scenario 3 (*)	-67%	-93%	-98%
Plausible adverse scenario 4	-8%	-18%	-25%
Plausible adverse scenario 5	-6%	-7%	-6%
Plausible adverse scenario 6	-62%	-55%	-48%

(*) Additional management actions have been taken into account

Critical Assumptions in DST

F1. Summary of critical assumptions

The base scenarios use a realistic set of assumptions for investment return, management expenses and new business sales used to project the financial position over the forecast period of three years.

FWD specific assumptions

The base scenario is based on the business plan conducted at mid-year 2019 with the following updated:

- Use of best estimate assumption effective as at year end 2019;
- In-force business data as at year end 2019.

Given the volatility observed in the market during the first quarter of 2020, the following adjustments have also been considered:

- Latest reforecast of new business sales;
- Interest rate and equity value up to 31 March 2020.

Sun Life specific assumptions

The base scenario is a realistic set of assumptions that are used to forecast Sun Life's financial position and condition over the forecast period. The base scenario is consistent with the Hong Kong Statutory Business Plan submitted to the IA in June 2020 with the additional inclusion of the new coinsurance signed at the end of March 2020 that covers inforce High Net Worth business.

The starting point of the projection is 31 December 2019 and the opening assets, liabilities, net assets and solvency ratio are the actual 2019 year end statistics as at 31 December 2019.

F2. Summary of scenarios

The scenarios conducted under the DST are as prescribed under the Guidance Note issued by the Actuarial Society of Hong Kong and required by the HK IA, with the aim to investigate the likely solvency of the companies under a range of adverse scenarios in the near future.

F3. Detailed descriptions of scenarios

The prescribed scenarios illustrated in the DST are as follows:

▪ *Prescribed scenario 1: deterioration in claims experience*

Throughout the forecast period, allow for:

- 15% deterioration in mortality rates for life business;
- 15% deterioration in morbidity rates;
- 15% increase in incidence rates for disability, accident and sickness; and
- No adjustment in mortality for annuity business (it is noted that this approach is different from the standard AGN7 approach but it is considered to be appropriate due to the lack of materiality of the annuity business).

▪ *Prescribed scenario 2: deterioration in persistency experience*

Throughout the forecast period, allow for an increase or decrease in lapse rates of 5%, depending on which alternative produces the most adverse results, by product.

▪ *Prescribed scenario 3: drop in interest rates, combined with a market crash*

Throughout the forecast period, and commencing immediately after the valuation date:

- Interest rates are set to 70% of the rates projected in the base scenario; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

▪ *Prescribed scenario 4: rise in interest rates, combined with a market crash*

- Interest rates are set to be 130% of the base scenario or the base scenario rates plus 2%, whichever is greater; and
- Equity and real estate market value fall by 25% in the first year, and then grow at the same rate as the base scenario

▪ *Prescribed scenario 5: high new business growth rates*

High growth throughout the forecast period, with growth rate being 30%, or 150% of plan growth rate if higher, and with a reasonable increase in expenses, consistent with the higher growth.

▪ *Prescribed scenario 6: low new business growth rates*

Low growth throughout the forecast period, with year 1 sales being 80% of current year, followed by 20% drop for years 2 and 3, without any saving in expenses other than commission and commission-related expenses that are directly related to the new sales volume.

The compound scenarios illustrated in FWD DST are as follows:

- *Compound scenario 1: pandemic outbreak*

Throughout the forecast period, allow for:

- Excess death of 0.75 per 1,000 at all ages in year 1;
- Excess morbidity of 1.50 per 1,000 at all ages in year 1;
- 15% increase in incidence rates for disability , accident and sickness;
- Equity and real estate market value dropped by 25%

- *Compound scenario 2: HKD/USD Spread Widening*

Throughout the forecast period, allow for:

- 1% increase in USD government bond yield;
- Flat HKD bond yield;
- 1.5% increase in inflation assumption;
- Policy holder dividend increased by 15%;
- Universal life credit rate increased by average 0.2%

- *Compound scenario 3: HKD/USD Unpegged*

Throughout the forecast period, allow for:

- USD and SGD depreciated by 10%;
- Equity and real estate value drops by 25%;
- 20% shock lapse of USD policies.

The plausible adverse scenarios illustrated in FWD DST are as follows:

- *Plausible adverse scenario 1: Operational Incidents*

- This is an operational scenario. It happens when an error in unit pricing calculation occurs for Class C and G business that adversely impacts the accuracy of the net asset value, and a business operation disruption, resulting from the system failure for business other than Class C and G.

- *Plausible adverse scenario 2: Counterparty Default Events*

- This is a counterparty default scenario. It happens when an economic recession triggering the defaults of major corporate bond issuers and the reinsurers.

The plausible adverse scenarios illustrated in Sun Life DST are as follows:

- *Plausible adverse scenario 1: Credit spread widening*

This scenario tests the economic impact from a widening of credit spreads triggering the following changes in economic assumptions.

- 150bps increase in credit spread for investment grade bonds.
- 250bps increase in credit spread for non-investment grade bonds.

- *Plausible adverse scenario 2: Credit crises*

This scenario tests a credit crisis triggering the following changes in economic assumptions.

- Short-term rates, medium-term rates and long-term rates increase immediately in 2020 by 1.00%. Interest rates then stay at this shocked level over the projection period.
- Credit spreads of corporate bonds increase immediately in 2020 by 1.00% (rating BBB or above) and 1.25% (below BBB), then stay at this shocked level over the projection period.
- Equity market value drops by 20% in 2020 and then equity continues to grow at the base scenario rate for the following years.
- Public and private bond and mortgage default rates are 500% of the base scenario in 2020 and the same as base scenario for the following years.

- *Plausible adverse scenario 3: USD / HKD non parallel drop*

This scenario tests the economic impact from a non-parallel drop of USD and HKD interest rates. The shocked economic assumptions are the following:

- For USD economics, short-term rates, medium-term rates and long-term rates gradually drop by 1.00% by the end of the first year and then stay 1.00% lower than the base scenario over the remaining projection period.
- For HKD economics, short-term rates, medium-term rates and long-term rates gradually drop by 0.50% by the end of the first year and then stay 0.50% lower than the base scenario over the remaining projection period.
- Credit spreads of corporate bonds gradually increase by 0.50% by the end of the first year and then stay 0.50% higher than the base scenario over the remaining projection period.

- HKD-USD currency swap spread differential adversely changes by 100bps at the end of the first year and then stay at this level over the projection period.
- Equity market value drops by 10% per annum during the projection period.
- Public and private bond and mortgage default rates are 200% of the base scenario over the projection years.

■ *Plausible adverse scenario 4: Anti-selective policy holder behaviour*

This scenario assumes structural changes in the marketplace leading to some forms of anti-selection against the Company. Therefore, this scenario explores the effects of increased sophistication in the marketplace leading to anti-selective policy holder behavior through the opportunistic exercise of premium payment flexibility, partial withdrawal and voluntary termination of contracts.

- 15% deterioration in mortality rates.
- 15% deterioration in morbidity rates.
- Lapse rates will change +/-25%, depending on which alternative produces the most adverse results by product.
- For Universal Life and linked products, the premium persistency will be set to 75% of base scenario and partial withdrawal turns to 10% in 2019.

■ *Plausible adverse scenario 5: Operational incidents*

This scenario examines the resilience of the business to operational incidents, particularly for classed C and G business that have a relatively low minimum solvency requirement under the Ordinance. This scenario assumes the following:

- An error was detected after the 2019 year end reporting. In particular, 10% of the account value of Class C and Class G business was recorded and reported by 15% lower than the true account value due to an investment allocation mistake. Consequently, the Company will have to compensate the reduced payments to policy holders to correct the account value and will receive a regulatory fine of HKD 5 million.
- This event has an adverse impact on the Company's reputation, which causes 10% additional lapses for Class C products in first two years and the marketing expense in year 2020 and 2021 are HKD 20 million higher to acquire new business.

■ *Plausible adverse scenario 6: Flu Pandemic & reinsurer default*

This scenario examines the impact of an outbreak of a worldwide flu pandemic which negatively impacts many insurers' mortality / morbidity claims. Meanwhile reinsurers are severely impacted because of the large amount of quota share reinsurance that has been ceded, which leads to default of some reinsurers. The main assumptions are the following:

-
- The Company experiences higher mortality claims in 2020, in aggregate around 7 per thousand higher mortality rate. Claim experience returns to base in the following period.
 - Critical Illness (CI) and Hospital Income (HI) claim experience in 2020 is also adversely impacted, resulting in negative income impact. The negative income impact is assumed to be 2% of the actual 2019 CI Claims and 25% of the actual 2019 HI claims.
 - This scenario assumes that RGA (the most significant reinsurer for the Company) defaults in 2020, causing 50% of the above excess claims not recovered from RGA. This scenario also assumes that the Company will recapture the ceded business from RGA and find a new reinsurer to cover the recaptured business at the end of 2020. The reinsurance rates for both inforce and future new business continue to be guaranteed but are increased by 20%.

APPENDIX B: KEY STATISTICS AS AT 31 MARCH 2020

Transferring business key statistics

The following tables show the detailed of the Class G long term business of FWD as at 31 December 2019 and as at 31 March 2020.

Class G long term business of FWD			
31 December 2019 Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF (*)	4,160	863	889
ORSO	72	2,090	2,402
Transferring ORSO Business	68	1,617	1,853
FWD Retained ORSO Business	4	473	549
Total	4,232	2,953	3,291

Class G long term business of FWD			
31 March 2020 Class	Number of participating schemes	Account balance (HK\$ million)	Amount of net liability (HK\$ million)
MPF (*)	4,142	837	863
ORSO	72	2,083	2,365
Transferring ORSO Business	68	1,588	1,798
FWD Retained ORSO Business	4	495	567
Total	4,214	2,920	3,228

(*) The number of participating schemes refers to the number of employers while Appendix C lists out the number MPF Class G policies.

Figures may not be additive due to rounding.

As at 31 December 2019, the long term business of FWD comprised 4,160 MPF schemes and 72 ORSO schemes while it comprised 4,142 MPF schemes and 72 ORSO schemes as at 31 March 2020. The amount of net liability of Class G ORSO business has slightly decreased between 31 December 2019 and 31 March 2020 from HK\$ 2,402 million to HK\$ 2,365 million mainly due to a decrease in account balance. The amount of net liability of Class G MPF business has also slightly decreased from HK\$ 889 million as at 31 December 2019 to HK\$ 863 million as at 31 March 2020.

Policy reserves before and after Transfer

The following tables show the Statutory Reserve of the Transferring Business before and after the Transfer using two different valuation dates, i.e. 31 December 2019 and as at 31 March 2020.

HK\$ million	FWD – Before transfer			Sun Life – After transfer		
31 December 2019	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	863	14	12	863	14	12
Transferring ORSO Business	1,617	159	76	1,617	159	101
Total	2,480	173	88	2,480	173	113

HK\$ million	FWD – Before transfer			Sun Life – After transfer		
31 March 2020	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
MPF	837	25	1	837	25	1
Transferring ORSO Business	1,588	151	59	1,588	151	79
Total	2,424	176	60	2,424	176	80

Figures may not be additive due to rounding.

At Transfer Date, there will be no change in both minimum GL7 reserve and smoothing reserve for MPF. For ORSO business, in line with the approach described in my Main Report,

- Similar to FWD approach before the Transfer, the minimum GL7 reserve for ORSO business will be split between FWD Retained ORSO Business and the Transferring ORSO Business based on the Account Balance.
- The entire ORSO smoothing reserve, i.e. smoothing reserve for both FWD Retained ORSO Business and Transferring ORSO Business will be transferred to Sun Life, leading to a higher smoothing reserve for the Transferring Business after the Transfer.

The Table below shows the Statutory Reserve of FWD Retained ORSO Business before and after the Transfer using two different valuation dates, i.e. 31 December 2019 and 31 March 2020.

HK\$ million	Before transfer			After transfer		
31 December 2019	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
FWD Retained ORSO Business	473	51	25	473	51	25

HK\$ million	Before transfer			After transfer		
	Account balance	Minimum GL7 reserve	Smoothing reserve	Account balance	Minimum GL7 reserve	Smoothing reserve
31 March 2020						
FWD Retained ORSO Business	495	51	20	495	51	20

Financial position

The table below compares free asset ratios before and after the transfer as at 31 December 2019 and as at 31 March 2020.

31 December 2019 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	103,314	82,671
Surplus over solvency margin (B)	6,339	5,072
Free asset ratio (B) / (A)	6.1%	6.1%
31 March 2020 HK\$ million	FWD before transfer	Sun Life after transfer
Total company		
Total liabilities including solvency margin (A)	109,901	85,679
Surplus over solvency margin (B)	5,928	4,855
Free asset ratio (B) / (A)	5.4%	5.7%

Both FWD and Sun Life free asset ratios have reduced between 31 December 2019 and 31 March 2020 as a result of the recent drop in the financial market. Sun Life free asset ratio is however more stable than FWD's.

The table below compares the solvency ratios as at 31 December 2019, 31 January 2020, 29 February 2020, and 31 March 2020 for both FWD and Sun Life before transfer.

Solvency ratio before transfer	FWD (*)	Sun Life (**)
31 December 2019	321%	266%
31 January 2020	298%	240%
29 February 2020	263%	232%
31 March 2020	193%	265%

(*) The solvency ratios exclude the amount of capital for FWD Malaysia and FWD Vietnam.

(**) The solvency ratios reflect the modified coinsurance signed in August 2016.

FWD's solvency ratio has reduced from 321% as at 31 December 2019 to 193% as at 31 March 2020 as a result of the recent drop in the financial market. Sun Life's solvency ratio has also reduced to a lesser extent but the actual solvency positions of both Sun Life and FWD remain above the minimum regulatory requirement as at 31 March 2020.

Conclusion

I am satisfied that none of the above developments affects the conclusions of either my Main Report or the main sections of my Supplementary Report.

APPENDIX C: THE TRANSFERRING POLICIES AS AT 31 DECEMBER 2019

C.1 List of Class G Policies – MPF Schemes as at 31 December 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant MPF Scheme
1	FWD MPF Capital Guaranteed Policy	B001-CGP	(missing)	Sun Life MPF Basic Scheme – Capital Guaranteed Portfolio
2	FWD MPF Capital Guaranteed Policy	C002-CGP	29-Mar-01	Sun Life MPF Comprehensive Scheme – Capital Guaranteed Portfolio
3	FWD MPF Capital Guaranteed Policy	S001-CGP	01-Dec-00	Sun Life MPF Master Trust - Capital Guaranteed Portfolio

C.2 List of Class G Policies – ORSO Schemes as at 31 December 2019

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
1	Albert Jewellery Company Limited Provident Fund Scheme	11000272	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
2	Alitom Engineers Ltd Provident Fund Scheme	11000327	27-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
3	Asia Pacific Adjusters Limited Provident Fund Scheme	15000100	03-Jan-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
4	Campell Group (Hong Kong) Limited Provident Fund Scheme	11000293	10-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
5	Checkpoint Apparel Labelling Solutions Asia Limited Provident Fund Scheme	11000194	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
6	China Europus (International) Ltd. Employees' Retirement Scheme	11000017	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
7	Parsons Delcan Inc. Provident Fund Scheme	11000501	22-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
8	DHL Global Forwarding (Hong Kong) Limited Provident Fund Scheme	19000771	10-Apr-96	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
9	Dimension Data China/Hong Kong Limited Provident Fund	15000384	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
10	Drew Ameroid (Singapore) Pte. Limited Provident Fund Scheme	110002 07	27-Jun-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
11	EL Grande Holdings Limited Provident Fund Scheme	150009 32	12-May-98	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
12	Fatti Components Limited Employees' Retirement Scheme	110000 31	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
13	Fook Lam Moon Restaurant Ltd. Provident Fund Scheme	150002 14	07-Feb-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
14	FWD Life Macau Agency Long Service Incentive Plan	11001018	2010	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
15	FWD Life Macau Staff Provident Fund	11001019	01-Aug-00	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption
16	Group Retirement Plan for Members of Community Health Services Ltd.	15001030	10-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
17	Hi-Watt International Enterprises Ltd Provident Fund Scheme	15000372	10-Dec-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
18	Honda Button Company Limited Provident Fund Scheme	19000682	28-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
19	Hong Kong Young Women's Christian Association Provident Fund	15000660	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
20	Hop Hing Group Provident Fund Scheme	15000142	03-Jun-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
21	Kasikorbank Public Company Limited Provident Fund Scheme	11000386	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
22	Kassel Park Engineering Company Limited Provident Fund Scheme	11000448	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
23	Kau Kee Trading Co., Limited Provident Fund Scheme	11000256	16-Aug-95	FWD Capital Guaranteed Plan -	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
24	KMT Enterprise Ltd. Provident Fund Scheme	18000553	22-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
25	Kwong Kee Electrical Co Ltd Provident Fund Scheme	11000519	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
26	Landard Toys Limited Provident Fund Scheme	15000436	04-Dec-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
27	Leventhal Limited Provident Fund Scheme	15000896	29-Feb-08	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
28	Lishan Company Limited Provident Fund Scheme	15000715	16-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
29	MAHK Ltd Provident Fund Scheme	004-5001026	19-Nov-07	FWD Multi-Funding Provident Plan	Insurance Policy based	1. Exempted ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
30	Man Lead Services Limited Provident Fund Scheme	18000654	27-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
31	Manfield Coatings Co. Ltd. Employees' Retirement Scheme	11000115	03-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
32	Melbourne Bookcentre Ltd. Employees' Retirement Scheme	11000054	08-Jun-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
33	Ming Fung Engineering Co. Provident Fund Scheme	19000644	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
34	Multi-Gold Air & Sea Express Limited Provident Fund Scheme	11000352	07-Sep-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
35	On Tak Lung Limited Provident Fund Scheme	15001003	04-Jun-99	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
36	One Country Two Systems Research Institute Ltd. Provident Fund Scheme	11000315	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
37	PMP Advertising (International) Ltd Provident Fund Scheme	11000066	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
38	PPG Industries International Inc Provident Fund Scheme	19000680	02-Oct-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
39	Realink Industries Ltd. Provident Fund Scheme	15000508	12-Aug-05	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
40	Remotec Technology Limited Provident Fund Scheme	11000449	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
41	Rocco Design Architects Limited Provident Fund Scheme	11000069	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
42	Samson Paper Holdings Limited Provident Fund Scheme	19100794	19-Jun-96	FWD Multi Funding Provident Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption
43	Sotheby's Hong Kong Limited Provident Fund Scheme	11000161	26-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
44	Specialty Metals Resources Limited Provident Fund Scheme	11000296	16-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
45	The Incorporated Management Committee of St. Joseph's Primary School Defined Contribution Scheme	15001028	08-Sep-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
46	St. James' Settlement Provident Fund Scheme (1)	11000117	07-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
47	Sunny Creations Limited Provident Fund Scheme	11000354	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
48	Technik Industrial Co. Ltd. Provident Fund Scheme	11000299	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
49	The Hong Kong L.P. Gas (Holdings) Limited Staff Provident Fund	15001034	12-Jul-11	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
50	The Hong Kong Settlers Housing Corporation Limited Provident Fund Scheme	11000041	16-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
51	The Sumida Electric (H.K.) Company Limited Provident Fund	15001031	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
52	The Yip's H.C. (Holding) Ltd. Provident Fund	15001032	26-Oct-10	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
53	Tong Seng Co Ltd Employee Benefit Scheme	11000078	28-Apr-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
54	Tsuen Wan Wai Tsuen Evangelical Church (Hong Kong) Limited Provident Fund Scheme	19000658	18-Sep-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
55	UCC Coffee Shop Co. (Hong Kong) Limited Provident Fund Scheme	15000525	09-Nov-06	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
56	Westrock MWV Hong Kong Limited Provident Fund Scheme	11000203	28-Apr-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
57	Tai Cheng Shing Limited Provident Fund Scheme	11000523	15-Mar-95	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
58	Wing Tai Jewellery & Goldsmith Company Limited Provident Fund Scheme	15100764	28-Nov-18	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
59	Wiseknit Factory Ltd. Provident Fund Scheme	11000090	23-Aug-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
60	Wylam's Services Limited Provident Fund Scheme	11000235	25-May-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
61	Yan Chai Hospital Board Head Office Provident Fund Scheme	15000695	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
62	Yan Chai Hospital Social Services Provident Fund Scheme	15000788	01-Apr-19	FWD Multi-Funding Provident Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
63	Yee Ying International Limited Provident Fund Scheme	11000229	13-Mar-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
64	Yi Chang Tai Company Limited Employees' Retirement Scheme	11000111	25-Jul-95	FWD Capital Guaranteed Plan	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
65	Yip Shing Diesel Engineering Co. Ltd. ORSO Scheme	810001023	24-Oct-11	FWD Capital Guaranteed Plan	Insurance Policy based	1. Registered ORSO Scheme 2. Has not applied for MPF exemption

	Class G Policies	Policy Number	Date of the Policy	Relevant Plan/Scheme	Insurance Based or Trust Based	Type of ORSO Scheme and whether it has MPF exemption or has not applied for MPF exemption
66	MHK Restaurants Limited Profit Sharing Plan	11000114 (changed from 805-01 on 29 Sept 1995)	22-Dec-88	Independent Scheme (that invests into FWD Capital Guaranteed Plan; and SLPT acts as the trustee)	Trust based - Sun Life Pension Trust Limited	1. Registered ORSO Scheme 2. Has MPF exemption
67	Schroder Provident Plan	n/a	01-Apr-00	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-
68	Wing Hang Bank Limited Provident Fund	21000001	18-Sep-04	Independent Scheme (that invests into FWD Capital Guaranteed Plan; but SLPT is not the trustee)	-	-

Note: the number of Class G policies has reduced since my Main Report given some policies have been terminated.