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WTW Alliance Partner

25 February 2025

The Chairman
Foundation Life (NZ) Limited
Ground Floor, 50 Customhouse Quay
Wellington, 6011.

Dear Sir,

Independent Actuary's review of the Foundation Life Scheme of Arrangement

The purpose of this letter is to set out my independent actuarial assessment of the Foundation Life (NZ) Limited proposed Scheme of Arrangement (Scheme) as set out in the Explanatory Statement dated 25 February 2025.

Overview of the Scheme

The Scheme is a plan to wind up the "participating fund" of Foundation Life (NZ) Limited (Foundation) which has been closed to new business for over 20 years. The plan is to offer policy owners with participating policies within the participating fund the choice of continuing insurance with Chubb Life Insurance New Zealand Limited (a level term insurance for life that has an increased sum insured compared to their current death benefit) or a cash lump sum. The cash lump sum is the value of the policy owner's interest in the participating fund after adjustments to allow the offering of insurance with Chubb. A choice may be made to combine the insurance and the cash lump sum, one third, two thirds, of each. Unsettled claims will be transferred to Chubb through a separate process. Foundation has some non-participating policies outside of the participating fund ("remaining policy owners") and these policies will not be directly affected by the Scheme however the intention is these policies (along with any incurred claims) will be transferred to Chubb on the Effective Date of the Scheme if it is approved.

A full explanation of the Scheme is found in the document entitled "Proposed Scheme of Arrangement, Explanatory Statement" dated 25 February 2025 that will be sent to all policy owners.

The Independent Actuary Role

The proposal involves a "Scheme of Arrangement" under Part 15 of the Companies Act 1993. Under that process there is no requirement for an independent actuary. However, Foundation wishes to follow a process in sympathy with sections 44 to 53 of the Insurance (Prudential Supervision) Act 2010 (IPSA). Section 46 of IPSA states the Reserve Bank of New Zealand may arrange for an independent actuary to make a report on the proposal and that is the usual practice. Alongside the Scheme unsettled claims will be transferred to Chubb under a section 44 transfer.

The Independent Actuary (IA) role for this work is being fulfilled by David Chamberlain, Fellow of the New Zealand Society of Actuaries, of Melville Jessup Weaver. I am independent of Foundation apart from they have paid fees for my services. The work I have undertaken is to determine whether the Scheme in my opinion is fair and equitable to all policy owners. This is my report with my opinion in that regard.

Sections 44 to 53 of IPSA and Scheme Assessment

Under section 48 of IPSA, in considering a request made under section 45, the RBNZ must have regard to the following matters when considering policy transfers:

(a) the ability of the transferee to comply with subpart 2 and, if applicable, subpart 3 of IPSA
(b) the interests of the policyholders of the insurers that are parties to the proposed transfer or amalgamation
(c) any other matter the Bank considers relevant.

I interpret "the interests of the policyholders" to mean their economic interests and that these economic interests are appropriately assessed by considering the three tests set out below. In each of these tests policy owners must not be adversely affected in any material respect in regards to:

1. The contractual benefits and other rights of policy owners; and
2. The policy owner reasonable benefit expectations; and
3. The security of a policy owner's interests under 1 and 2 above.

When considering policy owners, the consideration applies to both the in-scope policy owners (i.e. those whose policies will be transferred) and those whose policies will remain, the remaining policy owners.

The level of application of these tests is at the individual policy owner level.

In a policy transfer those three tests clearly can apply. The Foundation Scheme is not a policy transfer under section 44 of IPSA (apart from the unsettled claims) but in my view a type of policy deconstruction for the participating policy owners and so the first test cannot apply absolutely. However, the tests give good guidance as to how to assess whether the Scheme is fair and equitable. For the remaining policy owners and the unsettled claims transferring, all three tests are applicable and these are considered in reports separate to this one.

For the participating policy owners, where it is proposed to deconstruct their policies, I have considered whether the Scheme:

1. Offers the policy owners a fair value of their contractual benefits and other rights; and
2. Offers the policy owners benefits that can be considered to meet the value of their reasonable benefit expectations; and
3. Offers policy owners continuing security if they take continuing insurance with Chubb or elect to receive a cash payment from Foundation.

Process

In forming my opinion, I have:

- Reviewed the Proposed Scheme of Arrangement, Explanatory Statement;
- Reviewed the Appointed Actuary's Report on the Scheme (AA report);
- Reviewed the Stochastic Model documentation;
- Reviewed the Offer Model documentation;
- Reviewed the Agreement between the Shareholder and Foundation for the fixed $16.05m payment to the Shareholder;
- Reviewed some of the documentation the Directors relied on regarding giving preference to policyholders' interests as part of the Scheme;

- Reviewed the last set of Financial Statements as at 30 September 2023;
- Reviewed the last Financial Condition Report as at 30 September 2023;
- Reviewed the Chubb Appointed Actuary's Report on the effect on Chubb of the Scheme;
- Reviewed relevant demutualisation documentation;
- Reviewed relevant policy owner communications;
- Sought clarification from the Appointed Actuary and Foundation on matters where I was uncertain;
- Reviewed the Scheme with WTW in the UK and received their feedback on the Scheme;
- Made my own investigations where reasonable, to assess whether it is reasonable to rely on the information provided;
- Anticipated the remaining policy owners (including any incurred claims) will be transferred to Chubb and subject to their own section 44 of IPSA process.

WTW

WTW, a leading global actuarial consulting firm, appear in the formation and assessment of the Scheme in three places. WTW Australia appears twice through developing the stochastic model (in software Foundation has licenced from WTW for a numbers of years) and through providing the Economic Scenario Generator (ESG) which provides the economic assumptions to be used within the stochastic model.

WTW from the United Kingdom was involved in the Scheme assessment from the start as an expert adviser to me and was asked to consider the Scheme's acceptability in the UK regulatory environment. This is because the UK is seen as the most experienced market in the world working with participating funds of the type Foundation has.

Melville Jessup Weaver (MJW) is an affiliate of WTW. Neither entity has an ownership interest in the other, but rather an agreement to co-operate on work arising in New Zealand, if desired by either party.

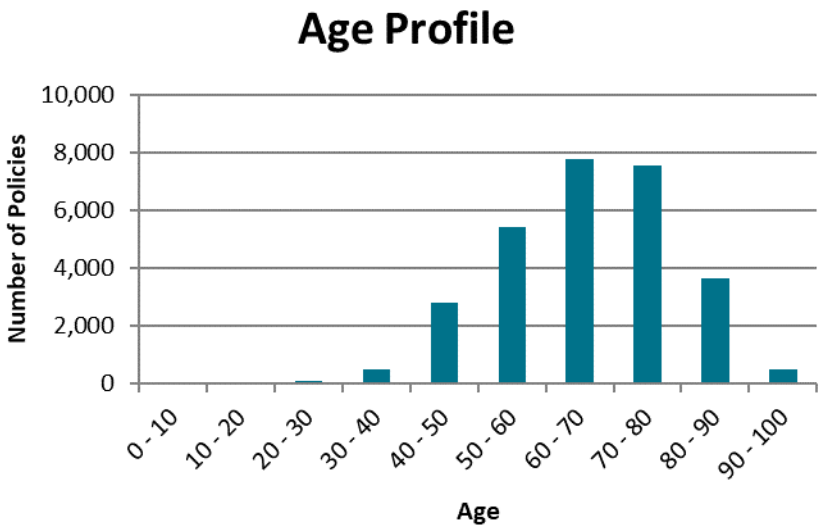
There is potential for a conflict of interest and a threat to my independence due to the WTW Australia involvement in the formation of the Scheme because of the MJW affiliation with WTW and further by my use of expert advice from WTW UK who are part of the same global firm as WTW Australia. This has been discussed by all the relevant stakeholders and determined not to be a matter that would preclude my independent assessment of the Scheme.

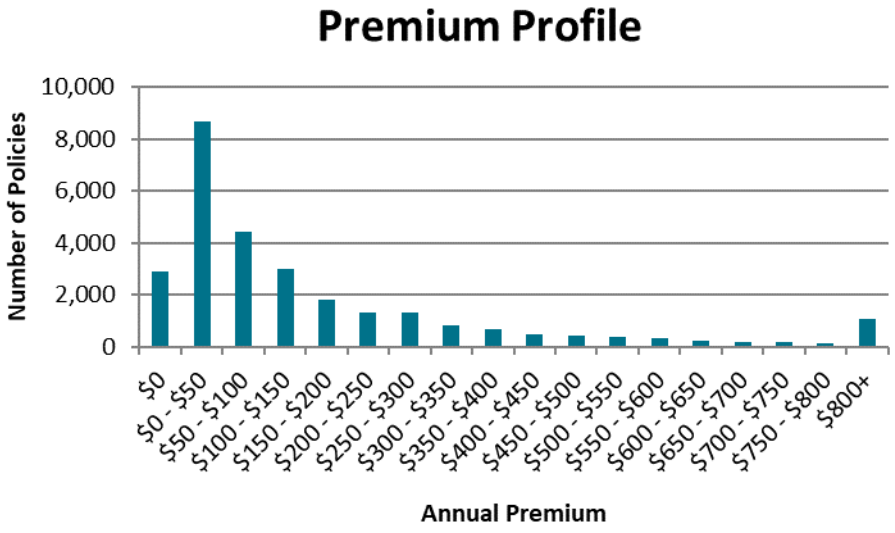
Participating Fund profile as at 30 September 2023

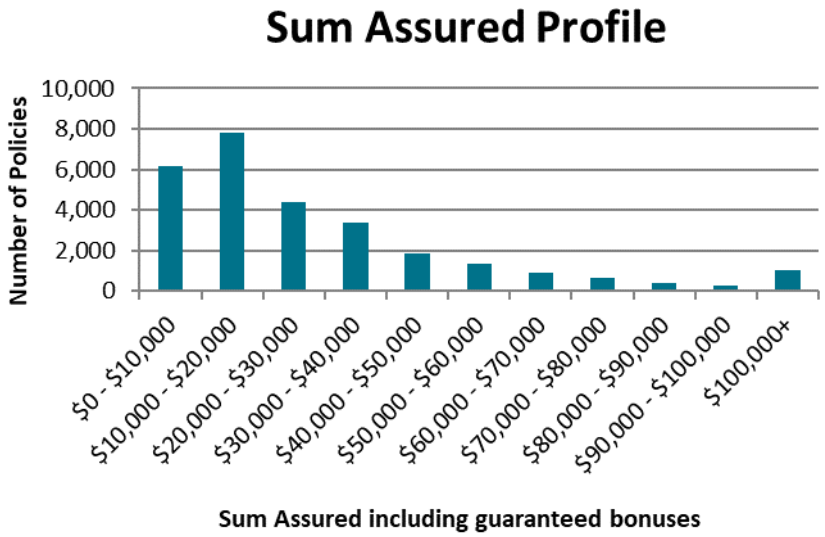
The tables below show some statistics for the policies in the participating fund which has been closed to new business for over 20 years. On average the policies are small and the lives at risk are older. There are 28,226 participating policies and 90% of them are paying premiums, albeit in many cases small amounts.

The first table shows deciles for age, premiums and sum insured. It shows 50% of annual premiums and sums insured are less than $70 and $21,000 respectively. 70% are less than $170 and $34,000 respectively. It shows 50% of policy owners are 67 or older. Conversely there are a few large policies with the highest premium being $11,318 per annum and the highest sum insured is $1.381m.

Decile	Age	Annual Premium ($)	Sum Insured plus Guaranteed Bonus ($)
0	23	0	476
10	49	0	6,770
20	55	17	9,552
30	60	28	11,910
40	64	47	15,532
50	67	69	20,298
60	71	117	26,625
70	75	167	33,105
80	78	266	44,119
90	83	455	64,299
100	95	11,318	1,381,264







Overall assessment of the Scheme

In essence the Scheme is about dividing an amount of money available today which would otherwise be distributed between policy owners, the shareholder and expenses over time. The fixed amount of money is the participating fund, consisting of approximately $484m of tangible assets as at 30 September 2023. The Scheme is a proposal to divide that money now based on the division that would be expected to emerge over time and thereby avoiding some of the costs of running a decreasing fund with increasing diseconomies of scale.

Not all policy owners will want their money in cash and prefer to keep insurance. To allow this, policy owners will be offered insurance from Chubb with a death benefit similar to what they would have had from Foundation. Policy owners can choose either cash or insurance or a combination of the two.

The policy owners have defined benefits today which are expected to grow in future with bonuses. Over the life of the participating fund these are estimated to be worth $388m in present day values. However, policy owners will have paid $52m in future premiums over that time. That gives a net policy owner value of $336m.

Under the rules in the company constitution, Shareholder payments are determined as a proportion of the value of policy owner bonus declared each year. The present value of future Shareholder payments is $24m (including existing shareholder retained profits in the fund). Therefore, of the $165m left for the Shareholder and expenses, $141m is consumed by expenses (which includes tax and incorporates the use of the deferred tax asset (DTA) available at 30/9/2023).

The following table shows the division of the participating fund between policy owners and the Shareholder under the status quo compared to an allocation under the Scheme. The amounts shown for the Scheme are the present value of the Scheme benefits using the Scheme valuation basis.

The actual cash used to give those benefits to policy owners is $460m (+$8m for future Scheme expenses and $16m to the Shareholder = $484m). The allocation shown for the Scheme assumes a 65% take up of insurance (policyholders can choose continuing insurance or cash, or a mixture of the two). The difference between $374m and the $460m is $86m which is an amalgam of “expenses” including Chubb’s margin for profit and expenses. At a 20% level of take up of insurance that

amalgam is reduced to $34m as less insurance is purchased, and the value to policyholders of their benefits is increased to $426m.

Under the company rules (and IPSA) profits must be split at least 80% to policy owners with the remaining 20% (or less) going to the Shareholder. Under the Scheme, the Shareholder has negotiated to receive a fixed $16.05m. The $16.05m conforms with the 80/20 requirement. At take up rates above 75% there are not enough assets to pay for all the elements of the Scheme (the 75% figure is approximate because the actual level will depend on the choices of the differing policy owners). The presumption is, at these take up levels, should that eventuate, the Shareholder will accept less to allow the Scheme to proceed. In the Scheme this is referred to as the Sufficient Assets Condition, and the AA report contains the assumption at take up rates above 75% the Shareholder will reduce the amount they receive from the Scheme. The Shareholder does not have to reduce the amount they receive to allow the Scheme to proceed.

Note under the Scheme the DTA does not have an immediate cash value that can be distributed. The Status Quo (derived from the balance sheet) includes a DTA of $17m (value received over time) and that is the difference between the totals.

	Status Quo ($m)	Scheme* ($m)	Difference ($m)	Cash Outflows ($m)
Policy Owners (incl future bonuses)	388	374	-14	
Future Premiums	-52	0	52	
Policy Owners less Premiums	**336**	**374**	**38**	**460**
Shareholder	24	16	-8	16
Expenses/Other (incl use of DTA)	141	94	-47	8
Total	**501**	**484**	**-17**	**484**

* at a 65% take up rate.

To assess the fairness of the Scheme two assessments are required:

- is the division between policy owners and the shareholder fair and equitable; and
- is the division amongst policy owners fair and equitable?

My assessment is that both those divisions for policy owners have been determined in a fair and equitable way. The Policy Owner/Shareholder split gives policy owners at least 80% of profits and the division between policy owners is equitable. Furthermore, policy owners can decide whether they prefer cash or insurance. They benefit from the money being divided up now and thereby avoid the diseconomies of scale of running the company in future.

The diseconomies of scale will be borne by the fund in the absence of Shareholder contributions. This raises the question should the Shareholder contribute more towards the diseconomies of scale and fund more, or all of, the Scheme expenses? Thus, should Scheme expenses be borne by:

1. The Participating Fund (80% policy owner and 20% shareholder); or
2. The Shareholder (100%); or
3. A proportion for the Shareholder between 20% and 100% i.e. somewhere between the two options above.

In forming my view on this question, I considered the following points:

a. Under IPSA, in a Statutory Fund (the participating fund is part of a statutory fund), the interests of policyholders must be given priority over the interests of shareholders.

b. In the point above policyholders are to be considered as a group.
c. Under IPSA the assets of a statutory fund are only available for expenditure related to the conduct of the business of the statutory fund.
d. Who is benefitting from the Scheme and in what way?
e. What are the incentives driven by the point above?
f. In the start-up phase of a company the shareholder is likely required to bear many of the expenses. Is there a similar requirement in the wind down phase of a company?
g. The rules (80/20) have existed from the start, why is it appropriate to change them now?
h. If there is good reason for 100% or 20%, why should there be an answer in between?
i. If the Shareholder pays 100% what incentive is there for the Shareholder to explore/propose something other than status quo?

Taking each of these points in turn:

a. This is ultimately a legal question not an actuarial question. That said, my thinking is as follows. The interests of policyholders being given priority over shareholders is not absolute. My reasoning for making that statement is, if it were absolute, you could never pay a dividend from a statutory fund because that weakens the financial position of the statutory fund and that is not in the interests of policyholders. It is acceptable to pay dividends from statutory funds. To my mind therefore forcing shareholders to fund the rundown of a statutory fund by forgoing distributions from the fund, and even further, from outside of the statutory fund (but from within the company) is not obviously required by IPSA.
b. If policyholders as a group are advantaged by the Scheme that overrides a single policyholder who feels they are not advantaged by the Scheme.
c. Again, this is a legal question. However, in my view, exploring a scheme to close the fund is related to the conduct of the business of the fund.
d. Policy owners can benefit from exiting from a fund losing economies of scale with all that entails. Policy owners may appreciate the opportunity to receive an enhanced cash value for their policy with the opportunity to invest elsewhere. The Shareholder benefits from exiting a fund that will provide them declining financial returns and are able to extract their capital and invest it elsewhere for a higher return.
e. Both the policy owners and the shareholder have incentives to implement the Scheme. The relative strength of their respective incentives is difficult to determine.
f. In the start-up phase the shareholder incentive to meet initial expenses is future returns. In the wind down phase the shareholder has little possibility of recouping the funding of additional expenses and therefore it seems different to the start-up phase. In wind down, having to fund additional expenses would make the company potentially worth less and unattractive to own. The two situations, start-up and wind down, are therefore different to my mind.
g. There appears no obvious reason to me that different rules should apply now.
h. There seems little case for 100% and so little case for over 20%.
i. Considering the alternative, the shareholder paying 100%, provides little incentive to buy a company near, or in run-off, and to spend any money exploring options to terminate it in an advantageous way (especially if it involves a policy owner vote) versus just letting it run off.

For these reasons I believe it is acceptable for the Scheme expenses to be paid from the Participating Fund.

Later in this report it is set out that a cap is applied to expenses in the projection to determine policy values. I note applying a cap to per policy expenses in the policy projections might suggest that the shareholder is covering the risk and associated costs of the diseconomies of scale and if that was the case then the Shareholder would disproportionately benefit from the Scheme by avoiding these. Further if that was the case, a case could be made that it was a shareholder driven exercise and the

shareholder should pay more than 20% of the Scheme costs. I have considered this and that if the diseconomies are borne by the fund, a better way to present the status quo position would be to establish a diseconomies of scale reserve now within the fund, and that would provide a more fair comparison against the Scheme, most likely strengthening the case for the Scheme.

I have considered if there was a diseconomies of scale reserve that would explicitly justify the expense cap, as the difference between the capped expenses and the best estimate expected expenses would be met by this reserve. The Scheme value could then be calculated using the PAR fund assets less the diseconomies of scale reserve (i.e. reduce the "Starting Assets" fed into the Stochastic model by the diseconomies of scale reserve). This will give a lower value of the status quo for both Policyholders and Shareholders. There is then the question of how the diseconomies of scale reserve should be distributed:

- If you gave it 100% to Policyholders that is equivalent to having no diseconomies of scale reserve and giving Policyholders full value for the inflated expenses. (this is an argument for having the cap)
- If you give it 100% to the Shareholder, then it is obvious that they are receiving 100% of the benefit of avoiding the diseconomies of scale.
- However, what the proposed Scheme does is add the diseconomies of scale reserve back into the starting assets, hence the benefit of avoiding the diseconomies of scale is being shared just like the rest of the PAR fund.

I view the expense cap merely as a calculation device and note reducing the cap advantages the Shareholder (validated by Foundation doing that analysis).

In the sections that follow I have examined the Scheme for elements that would be unreasonable for policy owners to accept.

Policy value determination and projection process

The participating fund is a pool of money managed for the beneficial owners which are policy owners and the shareholder. To implement the Scheme this pool of money needs to be divided between the individual policy owners and the shareholder in a fair and equitable way. Adopting a prospective view (as opposed to retrospective), policy owners should receive the value of their contractual benefits and the expenses associated with managing those less any premiums they will pay. Algebraically this can be expressed as:

PV(Benefits) + PV(Expenses) – PV(Premium) where PV signifies "the present value of".

The money due to the shareholder is defined in terms of the money allocated to policy owners each year (it can be thought about as every year the shareholder receives a management fee based on performance, the performance measure being how much was credited to policy owners), and in addition the shareholder provides a "guarantee" to policy owners whereby the participating fund is first used to pay contractual benefits of policy owners (and then if necessary shareholder equity is used). This creates alignment between policy owners and the shareholder in that the shareholder wishes to allocate as much as possible each year to policy owners but without risking triggering their guarantee.

The policy owners receive their fund allocations each year, on top of those previously already allocated to them, in the form of "bonuses", which are additions to their sum insured. The shareholder receives their allocation based on a proportion of the value of bonuses allocated to policy owners. The shareholder receives 25% of the value allocated to policy owners each year, this is referred to as an 80/20 gate and is defined in the company constitution (and is required by IPSA).

For the shareholder, the cash value of the bonuses allocated to policy owners is determined as the surrender value of those bonuses.

To divide the participating fund, the value ascribed to each policy owner needs to be determined and the value of the "guarantee" provided by the shareholder also determined. This will then allow the shareholder's share to be determined. To determine the division of the participating fund, Foundation has used a stochastic model.

A stochastic model is a tool that instead of using one set of assumptions uses many plausible sets of assumptions to give a range of answers that could occur. The end answer is the average of those answers. This is different to using the average of the assumptions to give one answer. It was necessary to employ this approach in this case because under some sets of assumptions the shareholder is required to give up some of their allocation to support the guaranteed benefits of policy owners and the cost of that support by the shareholder needed to be determined. Using the average assumptions ascribes no value to that shareholder support. In the runs done for the Scheme the value of the guarantee was assessed as $0.7m.

The stochastic model was developed by WTW in Australia as an extension of software Foundation already licensed from WTW for liability valuation purposes. The software is called "Risk Agility" and is a standard software tool that WTW licenses to clients around the world. The stochastic model as implemented uses 10,000 simulations to derive individual policy values. An important feature of the model is that it produces a "market consistent" valuation of the policy liabilities. "Market consistent" means it uses market prices of assets to derive valuation assumptions which means the answers it provides are aligned to market prices. It does this through using a set of assumptions derived from an economic scenario generator (ESG).

WTW Australia won a tender to use their ESG to determine the assumptions to be used in the stochastic model. An important decision in the model is the assumption for the risk-free rate beyond 20 years because at this point asset prices cannot be used to determine the assumptions. The choice is between continuing to use the rate at 20 years beyond that point or to trend it to an assumed long term "normal" rate as proposed for example by the New Zealand Treasury. Foundation have used the NZ Treasury rates. In my view that approach is reasonable.

The assets modelled in the stochastic model are described in the AA report in Appendix A.5.3. The assets are not the actual assets held at present but a hypothetical portfolio that matches the Foundation Board approved investment strategy. The actual assets held at present have been moved towards cash to avoid realisation risk should the Scheme proceed. This is noted below.

There is no surrender assumption modelled in the policy value determination. This is because to do so would have been moving value between policy owners based on something they can decide and choose not to do. Surrenders are not modelled for bonus setting purposes as the current surrender value basis is dependent on the stochastic model.

As part of developing the Scheme the surrender value basis came under examination and was found to be needing review. It was decided that if the stochastic model is the best way to determine policy owner value, then it should be used as the basis for surrender values. I agree with that assessment. It did result in some surrender values decreasing. This is important as the surrender value is used to assess the cash value and so this is somewhat circular. I have considered that criticism of the Scheme and accept that what is being done is the fairest outcome.

I have examined the mortality assumption and consider it to be reasonable. It includes an allowance for future mortality improvement.

The stochastic model requires bonus rules which follow the Foundation Board approved bonus philosophy. The implementation of these is explained in section A.6 in the appendix to the AA report. I have considered the bonus rule implementation and consider it to be reasonable.

The expense assumption per policy is very important. If expenses were assumed to continue to increase indefinitely due to lost economies of scale, the essence of what the Scheme is trying to resolve, then the value of policy owner obligations could well absorb a large part, if not all, of the participating fund. This situation would be unlikely to occur as the shareholder would most likely act to try and avoid it, for example it could reopen for new business or propose something like the Scheme. As noted earlier, in determining the policy owners' share of the participating fund by using prospective reserves, policy owners receive value for expenses, but in reality those expenses are not actually paid to them, but are paid away to service providers and thus policy owners would not directly benefit from those elevated expenses (and it would benefit policy owners with longer durations to go as opposed to policy owners with shorter durations to go).

To be consistent with the market consistent valuation approach, a market consistent approach was taken with expenses per policy. In the projection expenses are capped at $164 per policy, inflation adjusted. The $164 is an inflation adjusted market per policy expense based on a similar fund in the New Zealand market. The per policy expense applies at a portfolio level. Expenses are actually allocated to each policy each year in proportion to the surrender value of the bonus declared that year[1] for that policy. This allocation methodology was implemented to give fair treatment between big and small policies, and I believe it is fair and equitable.

An alternative to capping the per policy expense to deal with the diseconomies issue, is to establish a diseconomies of scale reserve and use that to smooth expenses over time. That also would reduce allocations to policy owners through bonuses and increase them through an allowance for expenses. It seems unrealistic to give policy owners value through increased expenses as opposed to through bonuses, noting policy owners would not actually "feel" the value of those expenses. The Shareholder benefits from a cap on expenses as it increases bonus distributions. The alternative is to say the Shareholder should suffer their share of the diseconomies of scale while policy owners receive it as value. That seems unreasonable and it would disincentivise the Shareholder to propose the Scheme as they would receive no benefit from the expense saving of avoiding the diseconomies.

Investment expenses and tax are allocated based on policy liabilities in each period. Tax is calculated based on the current tax rules. As at 30 September 2023 there were tax losses able to be carried forward. A deferred tax asset is included in the balance sheet at that date relating to a portion of the tax losses. Under business as usual the tax losses have value. Under the Scheme the tax losses would not be of value and so are not included in the value of (tangible) assets (to be distributed) under the Scheme. I consider the tax treatment to be appropriate.

For a given level of "starting assets" the output from the stochastic model is simply an allocation of these starting assets between the shareholder and each policy owner. These results are fed into an Excel spreadsheet termed the "Offer Model". As the offer to policy owners is in the form of a choice between cash and insurance there are also a number of other adjustments to be made. Not yet incurred Scheme expenses need to be allocated to arrive at the final cash and insurance offers for each policy owner, these adjustments are all done in the Offer model and are listed below:

- Deduct the deferred tax asset that remains after the Scheme has been completed as it will not be able to be utilised.
- Deduct Scheme expenses to be incurred in completing the Scheme (including payout costs).

[1] If no new reversionary bonus the last allocated reversionary bonus.

- Deduct the $500k IBNR premium to be paid to Chubb.
- Adjust for model error (the sum of the present value of all cash flows doesn't exactly sum back to the starting assets – this item is allocated in proportion to the "raw policy value").
- Statistical test increases (calculated such that there is 95% confidence that the mean for each policy is not understated by more than 1% due to using stochastic outcomes).
- The premium adjustment due to pre-agreed premium rates and pre-agreed assets not matching to market premium rates and market value of assets. This cost is allocated proportionately to those taking insurance.
- Commission commutation cost allocated in proportion to the commission present value.
- 5% surrender value uplift (paid by the participating fund but added to those policies getting the uplift).
- Uplift premiums (paid by the participating fund but added to policies receiving an uplift).
- Below minimum cash adjustment (if cash is too small insurance is purchased at a certain rate that may not align with the final cost of insurance – paid by the participating fund).
- Value test – to ensure the value of each policy's benefits after the Scheme is greater than the value of benefits before the scheme (the extra is added in cash which may be converted to insurance).
- Sum insured test – if less than age 95, the sum insured post the Scheme is never more than 2% below the anticipated status quo sum insured.
- Cash payment rounding (rounded to the nearest dollar – in aggregate goes to shareholder up or down).
- Chubb setup costs of $700k (paid by those taking insurance in proportion to market consistent premium).
- Additional take-up premium (paid only by those taking cash).
- Repayment of policy loans and premium debt.

The offer model and documentation was created by Foundation in conjunction with a consulting firm. The model itself has been audited by SumProduct Australia Pty Limited, an independent financial modelling firm. They did not find any evidence of, errors, omissions or deviation in methodology from the supporting documentation.

To date the Scheme expenses have been paid by the participating fund and similarly with anticipated Scheme expenses. I have not considered the legal position that flows from the participating fund being part of a Statutory Fund, and whether the Shareholder could be required to pay an increased proportion of the expenses due to the requirement of putting policy owner interests ahead of Shareholder interests. I have assumed it is appropriate that the participating fund has paid.

In total I believe the assumptions adopted are reasonable.

Investment Strategy

As noted above, Foundation has, in anticipation of the Scheme, adjusted the asset portfolio to reduce the asset realisation risk should the Scheme proceed. This step was taken to facilitate the Scheme and does not reflect the business as usual investment strategy. The comments below relate to the business as usual investment strategy in the absence of the Scheme. The business as usual investment strategy is used in the projection to determine values for the Scheme.

A key determinant of the value of the "guarantee" provided to policy owners by shareholders is the investment mix of the participating fund. The higher the allocation to growth assets the higher the variability of the asset values which increases the probability the shareholders will be required to forgo some of their entitlement to fund some of the policy owners' benefits but also increases potential distributions to policyholders and shareholders.

To reduce the risk of the shareholders having to forgo some of their entitlement and to maintain the required solvency of the participating fund, Foundation has adopted a "liability matching portfolio" and a "future return portfolio", as described in the appendix, section A.5 of the AA report. In effect this strategy has meant approximately 80% of the assets are a matched fixed interest portfolio and 20% of the assets are invested in growth assets such as equities. A similar 80/20 investment mix was adopted by Tower Life in 2012 under a previous appointed actuary and Foundation has maintained it although with a different methodology used to determine it. The Foundation methodology will see an increasing allocation to fixed interest as the participating fund runs off.

An 80/20 asset allocation could be viewed as conservative for a participating fund and as noted above a higher allocation to growth assets would increase the probability shareholders would have to forgo some of their entitlement. However, there were no rules or promises made as part of the demutualisation (when the investment mix was intended to be 50/50) that I am aware of that would preclude the participating fund being managed and invested in the way that it is. Furthermore although in real life a higher proportion of assets in growth assets would theoretically increase policy owners benefits, in terms of the Scheme and dividing up a fixed pool of money, the key impact would be to potentially increase the value of the guarantee provided by the shareholders which noted above was assessed at $0.7m in the scenarios modelled (it would also affect the balance between policy owners as bonuses would be altered).

I believe the approach for investments used in modelling for the Scheme is reasonable.

The Insurance Offer with Chubb

The insurance being proposed to policy owners is a level term insurance policy for life provided by Chubb. The sum insured is equal to 105% of the policy's current death benefit (which includes any terminal bonuses but excludes any separate death sum insured provided by any Rider Benefits).

Important distinguishing features of this insurance from the existing insurance are:

- The sum insured is fixed and will no longer increase with bonuses;
- The sum insured is payable only on death or terminal illness (there is no fixed age (age 95 for the whole of life policies) at which it will be paid);
- No further premiums are due as the policy is purchased with a single premium;
- The policy has a return of premium feature. The maximum the return of premium will be is the premium paid by Foundation. The basis for calculating the return of premium will be 99% of the solvency liability calculation under the solvency standard subject to a maximum of the premium paid. The return of premium calculation is not guaranteed.

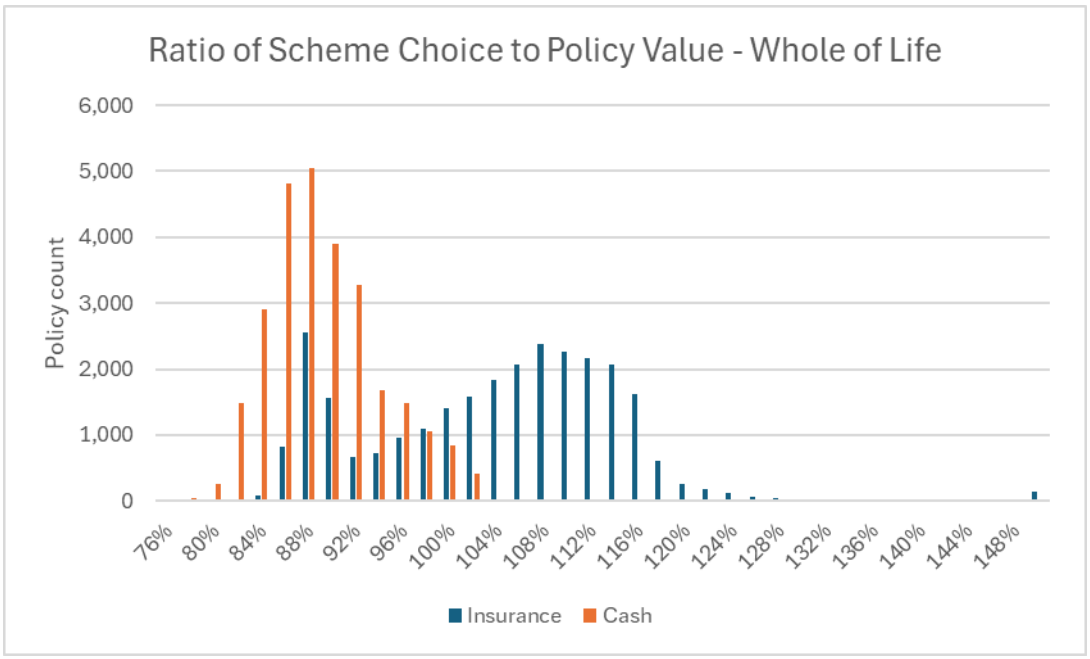
The current death benefit includes additional bonuses (terminal bonuses in industry jargon – a method to distribute unrealised capital gains to exiting policy owners). These additional bonuses are not guaranteed and in fact are intended to reduce over time. This means the current death benefit is expected to reduce for some policies as terminal bonuses are phased out. The proposed Chubb sum insured is guaranteed at the 105% level for life. If the value of the policy owner's interest in the participating fund (after adjustments – see section headed "Policy value determination and projection process") is more than enough to buy the 105% sum insured the excess will be paid in cash unless it is under $1,000 in which case it will be used to increase the sum insured.

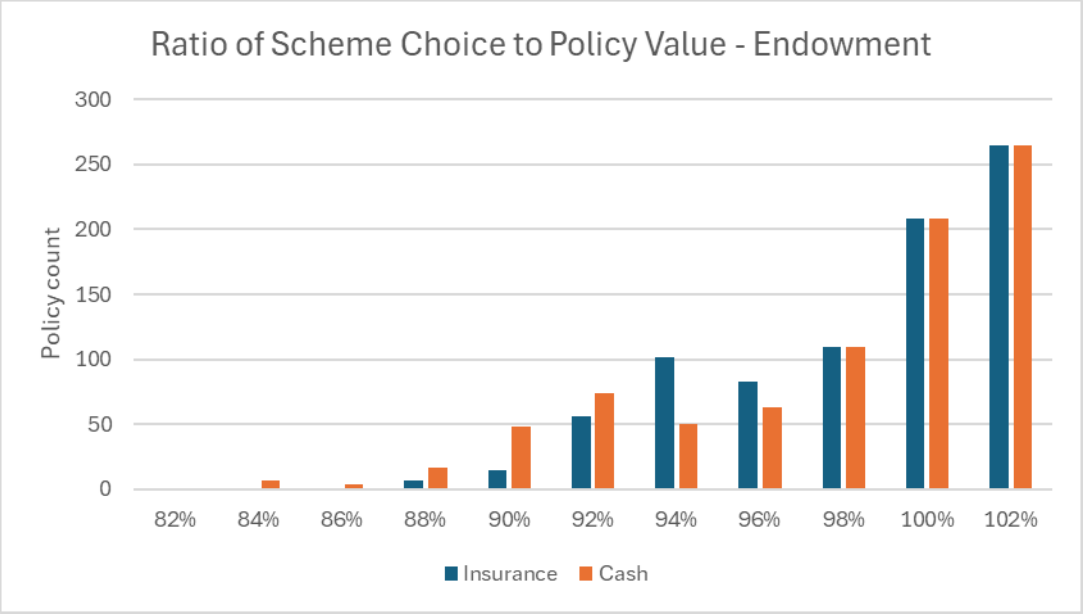
The AA report in sections 7 and 10 considers the new insurance provided through Chubb. It states "some Policyholders might at some durations have received higher amounts of cover under their existing policies through future bonuses. However, these Policyholders at no time will have a shortfall of more than 2% of the projected sum insured from their existing policies". That statement is true up

to age 95. Beyond age 95 the existing policy benefit is assumed to be received and invested, thereby earning interest and the 2% threshold no longer holds. The assessment prior to age 95 adds any premiums no longer required to be paid with interest to the Chubb policy sum insured for purposes of the comparison. This is fair for value comparison purposes but it should be noted that in real life the existing policy death benefit (which would require any premiums due to be paid) could grow in excess of the level Chubb death benefit.

The Appointed Actuary in section 10 of his report in assessing the proposed life cover, following an explanation of the measurement methodology adopted, states: "the New Life Cover provides a suitable level of cover for replacing the existing policies" and recognises the participating policy insurance cover cannot be replicated exactly but the offered replacement insurance is a reasonable alternative. I agree with that view.

I have considered policies that will benefit from no longer having to pay premiums (in effect a cross subsidy between policies). I note 90% of policies are paying premiums. Of those paying premiums, the average premium is $202. At one time during development of the Scheme, Chubb's minimum premium was $180 but their tender did not allow for premium collection. The maximum value of premiums foregone for a single policy is $118k or 18% of that policy's Scheme value. The maximum value of premiums foregone as a percentage of a policy's Scheme value is 444% but only $5,493 in dollar terms. There are 3 policies where the dollar amount is over $100k and 19 policies where the percentage of the Scheme value is over 100%. This illustrates how divergent policies in the participating fund can be. Just under 3,000 policies are not paying premiums. The graphs below show the value of the insurance and cash choice (at a 65% insurance take up rate) as a proportion of the status quo policy value for each of the Whole of Life policies and the Endowment policies. This shows most Whole of Life policies choosing insurance get some transfer from the policies that receive cash either fully or in part.





Given a participating fund has many cross subsidies occurring within it, and Chubb would not collect premiums, I am comfortable that this level of cross subsidy is not unreasonable for the Scheme to be able to proceed to a policy owner vote as policy owners who take cash are still advantaged, just less than they otherwise might be. I note the more policy owners who choose cash instead of insurance the smaller the effect on policy owners who take cash.

Post the Scheme consideration needs to be given to losing contact with policy owners who are no longer required to pay premiums. Paying premiums is method of contact – this aspect is considered in the Chubb section of this report.

The AA analysis considers insured lives based on average mortality. Not all insured lives are "average" and so consideration needs to be given to individual circumstances. Examples of this are insureds who have died but it has not been notified to Foundation, insureds who are terminally ill or have a shortened expected life span and those who simply wish to maintain a "funeral benefit".

Foundation will pay Chubb $500,000 to cover lives that have died but not yet been advised to Foundation (and are subject to a section 44 transfer process). Lives with shortened life spans are either catered for by the terminal illness benefit in the Chubb cover or the increased sum insured.

The relevant contractual benefits are a payment on death and in some cases, a payment on terminal illness. In section 10.5 of the AA report it states the applicable Chubb policy conditions are the same or better than the existing policy conditions for paying death and terminal illness claims and so the policy owners are not materially worse off. It should be noted for whole of life policies, with Foundation a payment is made on attaining age 95 but under the Chubb insurance this will not occur, and payment will be only on death (including terminal illness). This is particularly pertinent to endowment policy owners as there is no longer a maturity age for their policies. The Foundation payment at age 95 is contractual and that will not occur with the Chubb policy. Policy owners electing life insurance over cash need to be aware that Chubb will only pay on death (including terminal illness). That may suit some policy owners who are wanting to maintain a "funeral benefit".

Some existing policies have rider (or supplementary) benefits. The Scheme caters for those by either Chubb providing equivalent rider benefits or paying the cash value of them. Any policy owner exercising a guaranteed insurability option will be offered a Chubb yearly renewable term policy for life. It is likely at a point in time the premiums on those policies become unaffordable, the trade off

being the premiums would be lower initially and lower than a level premium would have been. There maybe a level premium option available.

If policy owners choose continuing insurance with Chubb it is important the security of that insurance is not materially reduced compared to that of Foundation. The Chubb AA Report considers Chubb's financial strength. I have read the Chubb AA Report and conclude that the security is not materially reduced.

As noted above the consideration of insured lives is based on statistical averages and the portfolio as a whole is assumed to have average mortality. The premium paid to Chubb for each insurance policy depends on the number of policy owners who choose to take up the insurance option. The lower the insurance take up rate, the more the premium rate increases as mortality is expected to increase as it diverges from the average. It is reasonable to assume those who choose insurance over cash have a higher propensity to claim than those who choose to take the cash lump sum. This is because the sum insured is greater than the cash lump sum so if you view the life insured as having poor health, it would be rational to take insurance to maximise the money you would receive from the scheme, alternatively, if you feel you are in good health and unlikely to die soon, you might prefer cash. If the participating fund had continued these mortality variations would have been spread into the fund and all policyholders would have shared the costs. Therefore, to allow for this, those that choose the cash lump sum option have their cash value reduced by the amount the actual premium charged by Chubb increases above the level the premium would have been if mortality was average. This is explained in sections 3.2, 4.6 and 11.8.4 of the AA report. I believe it is reasonable for this "anti-selection" premium (in actuarial jargon) to be paid by policy owners who do not choose insurance as this is in effect what would have happened had the participating fund continued.

In many cases, as shown in the graphs above, the cost to purchase the insurance for each individual policy owner is higher than their calculated value in the fund. This can come about for a variety of reasons including that for some policies that were paying premiums, no future premiums are payable, and that the Chubb premium basis differs from the Foundation valuation basis.

A significant reason which goes to the heart of the maintaining of equity between policy owners is that the insurance is bought from Chubb by a one-off premium and for policy owners this means no future premiums are payable. This is discussed in the Appointed Actuary report in sections 3.2, 4.7 and 11.8.3. The addition to a policy owner's calculated value in the fund to the amount required to purchase their insurance policy is called the "105% Uplift Premium". The uplift premium is paid by the participating fund (in effect policy owners who do not receive uplift premiums). That policyholders who were paying premiums do not have to in future is an area of cross subsidisation noted above. I believe the allocation of the uplift premiums is reasonable.

The effect of the additional take-up premium and uplift premiums is that participants in the participating fund pass value to policy owners who choose to take insurance (ie it reduces their cash values). This was highlighted in the graphs above and in the table in my overall assessment of the Scheme, and more detail demonstrating this is in table 9.2 in the AA Report. In my view this is reasonable and reflects the mutuality aspects of the participating fund. In normal circumstances the participating fund has risk pooling and cross subsidisation occurring to varying levels, the extreme being between those that claim early and those who survive through to a very old age. The AA report in section 11.8 makes the same point.

The Cash Lump Sum Offer

The Scheme offers policy owners a choice of either replacement insurance or a cash lump sum. The insurance is relatively straight forward to understand and compare for policy owners as there is an existing death benefit to compare against.

The cash lump sum offer is more difficult for a policy owner to assess as it is based upon a policy owner's interest in the fund and there is no obvious existing comparator. A policy owner can cancel their policy and receive a surrender value, a cash lump sum pay-out for cancelling their policy, but this incorporates a discount from their interest in the fund and the surrender value basis is decided by the company. Further, as noted above the surrender value basis was revised within the time span of developing the Scheme, and that could be seen as convenient and circular because a policy owner's share in the fund is set to a minimum of the surrender value with a 5% uplift.

Early work in developing the Scheme highlighted the shortfalls in the previous surrender value basis and the inequities it was producing. The decision was made to move to the values from the stochastic simulation as they were better estimates of a policy owner's value in the fund as opposed to a more traditionally expressed surrender value basis. The change in surrender value basis was raised with me at that time and after consideration I supported the change.

The Appointed Actuary's report addresses individual policy owners in section 11.4.1 and concludes "*that every Policyholder had both a life insurance option and a cash option that were worth more than the benefits, less premiums, under their existing policy*". I note aggregate results are shown in section 9 of the AA report which concludes that "*Policyholders [as a whole] receive insurance and cash benefits that are worth more than their existing benefits*".

Below I explain how I assessed the status quo value of a policy owner versus the cash value they will be offered.

A status quo value is determined from the stochastic model based on the formula: present value of benefits and expenses less the present value of premiums, represented algebraically as:

PV(Benefits) + PV(Expenses) – PV(Premiums)

The status quo values are determined from all 10,000 simulations and include the value of the guarantee.

Similarly, the cash values are derived from all 10,000 simulations and include the value of the guarantee. The "offer model" as noted above allocates the charges arising from the Scheme. Depending on the Scheme charge type the charges are allocated in various ways, for example:

- Uplift premiums are allocated in proportion to the raw policy value (policy owners who do not receive uplift premiums pay these)
- Additional take-up (anti-selection) premiums are deducted from those taking cash in proportion to their share in future bonuses (only policy owners taking cash pay these)
- The capitalised commission expense is allocated in proportion to the present value of the commission the policy would have paid

So, the cash value has all Scheme charges deducted but all future expenses (including tax) are included. The cash value can be represented algebraically as:

PV(Benefits) + PV(Expenses) – PV(Premiums) – PV(Scheme Charges)

To test the cash value against the status quo value I have removed the expenses from the status quo value and thus it becomes present value of benefits minus present value of premiums, represented algebraically as:

PV(Benefits) – PV(Premiums)

I have removed the expense allowance from the status quo because the policy owner does not directly receive those expenses, they are paid away to provide administration and other services. It can be argued the policy owner should receive some value for the expenses as they are contractually entitled to receive the value of those administration and other services, and if they choose cash they will need some expense allowance to pay for the investment expenses of managing the cash. I return to this point.

Algebraically the Cash Value being greater than the modified Status Quo value can expressed as:

PV(Bens) + PV(Exps) – PV(Prms) – PV(SchChgs) > PV(Benefits) – PV(Premiums)

which reduces to:

PV(Expenses) > PV(Scheme Charges)

This says that policy owners are better off if the Scheme charges allocated to them in their cash value are less than the value of their future expenses under the status quo. This makes intuitive sense as future administration and other expenses are avoided, and distributed to policyholders after they pay the Scheme charges. This is the essence of the Scheme and there is no other sensible outcome unless the shareholders paid all the Scheme charges which they are not obviously obligated to do as noted earlier. Returning to the point from above, it can be seen policy owners do receive something toward the expenses of managing their cash. This may or may not be adequate and refers to the point raised earlier about the level of expenses to incorporate in the status quo projection. It seems very unlikely a policy owner took a policy with the expectation their benefit would be enhanced by a company running into diseconomies of scale and so I am satisfied with the test set out above.

Policy owners will not see the status quo value compared to the cash value in their individual letters, but this test has been performed at an individual policy level and the cash value is greater than the status quo value (with the value of expenses removed) in all cases as stated in the AA report in section 5.4. This highlights the policyholders do receive some value for the status quo expenses but only the expenses in excess of the Scheme charges which are allocated to them. The cash value is an uplift from the surrender value.

There are some cases where the status quo value is negative, that is the future premiums are more valuable than benefits to be received. That can be expected at the start of a policy at early durations. Those policy owners would receive the surrender value with uplift as their cash value.

The Scheme is subject to a Sufficient Assets Condition whereby at high take up rates of insurance there may not be sufficient assets to meet all these tests. This is noted previously in this report. Conversely at low take up rates of insurance, cash values are increased. The impact of larger policies is particularly significant in this sense. If larger policies choose cash, everyone's value from the Scheme is enhanced.

If the Scheme proceeds there will be significant amounts of cash owed to former policy owners after the Effective Date. The security of those cash payments needs to be considered as it could take some time to complete all the payments. It is expected assets would be converted to bank deposits to secure those payments and Foundation would still be subject to RBNZ prudential supervision until the insurance licence was cancelled. Therefore, Foundation would remain prudentially supervised by the RBNZ.

Chubb AA Report – effects on policy owners

In the Chubb Appointed Actuary report, there are two groups of policy owners to be considered:

- Ex-Foundation policy owners who receive replacement insurance from Chubb; and
- Existing Chubb policy owners.

Both sets of policy owners can be considered using the same tests. The contractual benefits and other rights of existing Chubb policy owners will continue as before after the Scheme. Ex-Foundation policy owners will have an opportunity to consider the policy terms prior to the Scheme effective date and prior to deciding whether to continue with insurance.

After the free look period ex-Foundation policy owners can cancel their policy and receive a return of premium. The maximum the return of premium will be is the premium paid by Foundation on their behalf. The basis for calculating the return of premium will be 99% of the solvency liability calculation under the solvency standard subject to a maximum of the premium paid. The return of premium calculation is not guaranteed. This basis should ensure Chubb does not unreasonably benefit from ex-Foundation policy owners cancelling their policies.

In large part existing Chubb policy owners have non-participating policies and the ex-Foundation policies are non-participating, therefore the reasonable benefit expectations are to receive the sum insured if a claimable event occurs. This can reasonably be expected to occur. Chubb also has a small existing with-profits portfolio that is expected to continue unaffected by the Scheme. These outcomes are set out in the Chubb AA's report, and I accept those statements.

The security of policy owners can be considered by looking at the solvency position of Chubb Life after the Scheme and by the rating of Chubb Life from an external rating agency. The ex-Foundation policy owners will want to consider the financial strength of Chubb against that of Foundation.

The Chubb AA report shows the solvency based on the Interim Solvency Standard 2023 as issued and as it is expected to be amended. In both situations Chubb's capital exceeds the Prescribed Solvency Requirement and meets their target surplus position. The ex-Foundation policies are shown in the Chubb AA report to improve the Chubb solvency position after the 14 day free-look period has ended. This means Chubb policy owners security is not detrimentally affected. The Chubb solvency margin is projected to increase over time (assuming no dividends).

In regards to the ex-Foundation policy owners, at 30 September 2023, Foundation had a solvency margin of $52m. At 31 December 2023 Chubb had a solvency margin of $109m. Although these are not directly comparable (and the solvency ratio even less so) it does show Chubb had a substantial solvency margin which is to be expected as it is a larger business open for new business. If the Scheme had gone ahead at 31 December 2023 Chubb calculates its solvency margin would have been increased to $117m allowing for expected changes to the solvency standard and after the freelook period. Chubb projects its solvency margin to increase in future ignoring the effect of dividends. On this basis I believe the security of ex Foundation policy holders to be suitably high.

Chubb has a Financial Strength Rating of A ("Excellent") from AM Best and it is stated this rating is expected to be maintained although engagement with AM Best has not occurred to confirm that. Foundation has a rating from AM Best of A-, lower than that of Chubb.

Chubb' s compliance with subpart 2 and subpart 3 of part 2 of IPSA will continue unchanged.

In summary, I foresee no material detriment to the security of existing Chubb policy owners and the ex-Foundation policy owners will receive suitable benefit security and policy servicing that aligns with industry standards.

Voting

Whether the Scheme proceeds depends on the outcome of a vote by policy owners. The Scheme will proceed if:

- Of those who vote, more than 50% in number (1 vote per current policy), vote in favour of the Scheme; and
- Of those who vote, 75% or more in value of the current policies vote in favour of the Scheme. For this purpose, each current policy will have the number of votes equivalent to its surrender value.

The voting rules are a legal question and thus in one sense outside of my scope. That the Scheme can be executed based on only those that vote as opposed those entitled to vote makes policy owner communication very important and this is covered in the next section. However, given the novel application of a scheme of arrangement process, I believe it is important I consider whether I believe the voting rules are fair from two aspects, first whether it is fair to have only one class of voter and second, whether the rules around the majority required are fair.

The Scheme has only one class of voter and thus treats all policy owners (policies) as a single class. I have considered whether I believe there should be more than one class. Every policy is different to another in some sense (eg period to policy "maturity") which may have a greater financial impact than "obvious differences" such as endowment policies and whole of life policies. Hence, given that all policies are different in some sense, but all have a mutual interest in the participating fund and its operation I believe it would be arbitrary to have different classes and believe one class is fair.

The first leg of the voting requires a simple 50% simple majority by policy owner. The second leg requires 75% majority by value where value is determined from the policy surrender value. I believe surrender value to be a fair measure of value for this purpose. The second leg works to ensure that the small value policy owners can't force the higher value policy owners to accept something that is not in their interests through the vote in step one. Given expenses are allocated to policies proportional to their policy size, and one could argue thereby small policies are not allocated sufficient of the fixed expenses, I believe the voting system to be fair.

Policy Owner Communication and Feedback

As noted above the outcome of the vote is determined from votes cast rather than of those eligible to vote, which adds greater importance to policy owner communications. I am aware Foundation have made concerted attempts to improve their data quality and find policyholders with which they had lost communication. Gone No Address (GNA) currently make up 4% of policy owners. Foundation will hold any cash due to GNA's for 6 months post the Effective Date after which it will be passed to the IRD as unclaimed monies and accessible for 25 years. Any GNA who receives insurance will have a Chubb policy and will be managed by Chubb.

Foundation advised policyholders of the policy restructure and Scheme several years ago when it was first proposed, and has since provided policyholders with regular updates on progress. Following receipt of initial orders from the High Court, Foundation will send all policyholders eligible for the Scheme a detailed information pack which will include a letter introducing the Scheme and presenting an estimate of the options available to each policyholder. The information pack will also include an Explanatory Statement outlining the Scheme and including the legal terms of the Scheme,

summaries of the Appointed and Independent Actuaries' reports, a copy of the replacement insurance policy document, and other key information to support the voting process. Foundation will also publish a notice of the vote and Scheme meeting in the major metropolitan newspapers, as well as on their website.

I have reviewed the communications available to date and I have found the correspondence to be reasonable and not misleading.

Should the Scheme proceed it is necessary to have default options for policy owners that do not respond to the communications presented to them. The default options have been selected as the cash lump sum for endowment policy owners, replacement insurance for whole of life policy owners who are New Zealand residents and cash lump sum for non-residents. On the assumption policy owners could choose between these types of policies (endowment or whole of life) at policy inception, endowment policy owners wanted a cash lump sum at some point and whole of life policy owners wanted insurance for life, then these default options seem reasonable.

Endowment policy owners who do not respond will by default by given the cash benefit. As the graph above illustrated in many cases this is less than their status quo policy value (including the value of expenses) but greater than the value of their benefits less any premiums due ie they do receive a partial allowance for expenses. The lower the insurance take up rate the greater that partial allowance will be. I believe that is an acceptable feature of the Scheme and I note they will receive a value that is at least 5% higher than their surrender value.

Remaining Policy Owners after the Scheme

It is intended these policies will be transferred to Chubb on the Effective Date of the Scheme subject to the Scheme's approval. Note participating policies that have a claim incurred prior to the Effective Date, that have not been settled, will also be transferred under a section 44 process.

It is possible that the Scheme proceeds but the remaining (non-par) policy owners' policies are not transferred to Chubb. The AA report deals with this situation in section 6.3.1. Remaining policy owners would remain at Foundation with Foundation having a strong capital position. The remaining policy owners' interests would effectively be unaltered.

Assessment of Scheme against UK standards

As noted previously WTW UK has been engaged as an expert adviser to me in assessing the Sheme. The WTW UK advice has helped me in assessing the Scheme and aided me in reaching my conclusion that the Scheme was fair and equitable to policy owners.

The letter of engagement between Foundation and MJW sought an assessment of whether the Scheme would likely be acceptable in the UK. WTW UK have guided me in making this assessment noting Schemes of Arrangement have not been used in similar circumstances in the UK. In the UK the Scheme would likely be assessed against:

A. The contractual benefits and other rights of policy owners
B. The policy owner reasonable benefit expectations
C. The security of a policy owner's interests under A and B above
D. The division of value between policy owners and shareholders should be reasonable
E. The scheme should be equitable to all classes and generations of policy owners

which are similar to the criteria I have used. The key area of uncertainty is determining what is meant by the phrase "equitable to all classes and generations of policy owners". If that is interpreted as

"the policyholder is not materially disadvantaged by the Scheme", then it is likely that the proposal would be viewed as acceptable in the UK. If a stricter meaning applies such that all policy owners should receive "a fair allocation of the fund", the Scheme could be challenged by some of the policy owners.

Reliance on the work of others (Foundation's Appointed Actuary)

In forming my opinion of the Scheme, I have relied on the work of Paul Swinhoe, the Appointed Actuary of Foundation. I have queried Paul as draft reports were produced and am satisfied all my queries have been addressed.

I have relied on audited financial statements as at 30 September 2023.

I have performed checks I felt necessary to satisfy myself it is reasonable to rely on the work of Foundation's Appointed Actuary.

Material Risks

The RBNZ has asked the report draw out any material risks. In my opinion the material risks are:

1. Some policy owners at some durations may have received higher life insurance cover through their existing policies and potentially higher surrender values.
2. In general, those that take cash subsidise those that take insurance as set out above. This is especially relevant to endowment policy owners who are defaulted to cash lump sums.
3. The "sufficient assets condition" – that the Scheme will not proceed if the take up rate of insurance is so high that there are insufficient assets to meet the Scheme design.
4. The Scheme is subject to a vote and may not proceed.

I do not believe there are any material matters omitted by the appointed actuaries of Foundation and Chubb.

I do not believe there are any material differences of opinion between the appointed actuaries of Foundation and Chubb.

The Scheme is subject to a vote and therefore the policy owners will have an opportunity to decide whether they individually believe the Scheme is in their interests and whether to support the Scheme. In forming my opinion about the Scheme I have asked myself are there features that are so egregious it should be prevented from being put to policyholders. I have not found any such features.

Opinion

Based on the financial information available to 30 September 2023, and assuming the Scheme was effective on that date, it is my opinion the Scheme, if it occurred on 30 September 2023:

- is fair and equitable to the participating policy owners; and
- offers the participating policy owners a fair value of their contractual benefits and other rights; and
- offers the participating policy owners benefits that can be considered to meet the value of their reasonable benefit expectations; and
- offers policy owners continuing security if they take continuing insurance with Chubb or elect to receive a cash payment from Foundation.

For the purposes of this letter, I regard a matter as being not material if, in my view, that matter has such a small impact (or potential impact allowing for its probability) that it is inconsequential or not relevant for any individual policy owner. In considering the effect of the Scheme on the policy owners I have recognised that, in the case of 'group' policies (e.g. a policy owned by a trustee of a superannuation fund for the benefit of its members), the ultimate beneficiaries are persons other than the policy owners.

The financial information relied upon is as at 30 September 2023 which is over a year ago. My assessment of the Scheme would not be altered by considering more up to date information.

I have no recommendations for modifications to the Scheme.

I have made all the enquiries that I believe are necessary and no material that I regard as relevant has, to my knowledge, been withheld from me or any other person.

It is anticipated this letter will be made available to the RBNZ, the High Court, Foundation Life (NZ) Holdings Limited and other parties as agreed between us as is necessary for the Scheme to proceed. It is expected the full letter will be available on the Foundation website and a summary included in the Explanatory Statement.

This letter is compliant with the New Zealand Society of Actuaries Professional Standard No. 90 “General Actuarial Practice”.

Yours sincerely,

David Chamberlain FNZSA
Principal, Melville Jessup Weaver

Copy to: Grant Piercy, CEO, Foundation Life (NZ) Limited