SUMMARY OF SCHEME AND INDEPENDENT EXPERT'S REPORT

Proposed transfer of the direct insurance and inwards reinsurance business of the UK branch of Sompo Japan Nipponkoa Insurance Inc. to Transfercom Limited

1. OVERVIEW

1.1 It is proposed that the direct insurance and inwards reinsurance business of the UK branch of Sompo Japan Nipponkoa Insurance Inc. ("**SJNKI**") will be transferred to Transfercom Limited ("**Transfercom**") under a scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (the "**Act**") (the "**Proposal**").

1.2 SJNKI is an insurance company incorporated in Japan. It has a UK branch which authorised to carry out contracts of direct insurance and reinsurance by the UK prudential regulator, the Prudential Regulation Authority ("**PRA**").

1.3 Under the terms of the Proposal, all of the policies of the UK branch of SJNKI will be transferred to Transfercom. The terms of those contracts however will not otherwise be affected as a result of the transfer. Consequently, insureds and reinsureds need to take no action in relation to claims or premiums.

1.4 Transfercom is a private company limited by shares incorporated in England. Transfercom is authorised by the PRA to carry out contracts of direct insurance and reinsurance.

2. PROCESS

2.1 The Proposal will be effected under provisions contained in Part VII of, and Schedule 12 to, the Act. These provisions permit a business carried on by an insurance company in the United Kingdom ("**UK**") to be transferred to another insurance company. The details of such a transfer must be set out in a scheme (the "**Scheme**"), which can only become effective with the sanction of the Court.

2.2 SJNKI made an application to the Court in respect of the Proposal by a Claim Form issued on 30 October 2015. The Court hearing is expected to take place on 26 February 2016. The application to the Court was accompanied by a report on the terms of the Scheme in a form approved by the PRA and made by a person appearing to the PRA to have the skills necessary to make a proper report (the "**Independent Expert's Report**").

2.3 Any person (including staff employed in the performance of SJNKI's business or Transfercom's business) who alleges that he or she would be adversely affected by the carrying out of the Scheme is entitled to object (by sending written representations to the solicitors named below and/or the Court or making oral representations to the solicitors named below) or may appear at the time of that hearing in person or by Counsel, as may the PRA and the Financial Conduct Authority. Any person who intends to object orally or in writing or so to appear is requested (but not obliged) to notify his or her objections and the reasons therefor as soon as possible, and preferably before 24 February 2016, to Hogan Lovells International LLP (the solicitors acting for SJNKI) at Atlantic House, Holborn Viaduct, London, EC1A 2FG, quoting reference C4/NC/TJG, or by telephoning +44 (0)20 7296 2000.

2.4 Subject to the granting of an order of the Court sanctioning the Scheme, the Scheme is expected to become effective at 11.59 pm on 28 February 2016 (the **"Effective Date"**).

3. SUMMARY OF THE SCHEME

3.1 Transfer of the direct insurance and inwards reinsurance contracts of the UK branch of SJNKI to Transfercom

The direct insurance and inwards reinsurance contracts of the UK branch of SJNKI will be transferred to Transfercom in accordance with the Scheme on the Effective Date (except as provided in paragraph 3.3 below). Transfercom will become:

(a) the insurer under each transferring policy for which SJNKI is currently the insurer; and

(b) the reinsurer under each transferring reinsurance contract for which SJNKI is currently the reinsurer.

3.2 Litigation

From the Effective Date any proceedings which are pending, current or contemplated by or against SJNKI in respect of the transferring business will be continued or (as the case may be) commenced by or against Transfercom.

3.3 Excluded policies

If any policy that SJNKI has issued is excluded from the transfer for any reason, then that policy will not be transferred to Transfercom. However, SJNKI has no reason to believe that any policy will not be transferred.

4. SUMMARY OF THE INDEPENDENT EXPERT'S REPORT

A summary of the Independent Expert's Report is appended to this document.

5. COPIES OF DOCUMENTS RELATING TO THE PROPOSAL

Copies of the Independent Expert's Report and of this document are available on the following website: http://www.sjnk.co.jp/english/news/2015/20151120contents/ and will also be provided, free of charge, by Hogan Lovells International LLP, solicitors for SJNKI, whose details are given in section 2.3 of this document.

Summary of the Report of the Independent Expert

Introduction

1. This is a summary of a report dated 28 October 2015 (the "**Report**") that I, Gary Wells, have prepared having been nominated by Sompo Japan Nipponkoa Insurance Inc. ("**SJNKI**") and Transfercom Limited ("**Transfercom**") and approved by the PRA as an independent expert to report on the proposed transfer of the whole of the (re)insurance business effected and/or carried out by the UK branch of SJNKI (the "Transferring Business") to Transfercom under an insurance business transfer scheme (the "**Scheme**") pursuant to Part VII of the Financial Services and Markets Act 2000 (the "**Act**"). It should not be read as a substitute for my Report, as taken in isolation it could be misleading. Please refer to the Report for details of the scope of my work and my conclusions. The Report is available online at http://www.sjnk.co.jp/english/news/2015/20151120contents/ or may be obtained by written request to Hogan Lovells International LLP (the solicitors acting for SJNKI), Atlantic House, Holborn Viaduct, London EC1A 2FG, quoting reference C4/NC/TJG.

2. The Report is required under Section 109 of the Act in order that the High Court may properly assess the impact of the proposed Scheme. It describes the transfer under the Scheme and discusses its possible effects on all affected policyholders, including effects on policyholder security and levels of administration services.

3. Earlier parts of this document contain a description of the Scheme so I have not included one in this summary, although I confirm that the description provided earlier in the document is consistent with my understanding of the Scheme. My summary of the Report below has focused on the security and service levels provided to policyholders and the likely effect of the Scheme on policyholders of SJNKI and Transfercom, as applicable.

4. Reliances and Limitations - In carrying out my review and producing the Report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, in both written and oral form, by SJNKI and Transfercom. Where possible, I have reviewed some of the information for reasonableness and consistency with my knowledge of the insurance industry.

5. I have only considered the Scheme to which the Report relates and I have not considered any alternative schemes.

6. The Report has been prepared on an agreed basis under Part VII of the Act for the Court, SJNKI and Transfercom in order to meet the specific purposes of the Scheme, and must not be relied upon for any other purpose. It must be considered in its entirety as individual sections, if considered in isolation, may be misconstrued.

7. In the event of any conflict of interpretation between this summary and the Report, the interpretation contained in the Report will prevail.

8. Conclusion

In my opinion:

- ***the security of benefits of the policyholders of SJNKI and Transfercom will not be materially adversely affected by the implementation of the Scheme on the Effective Date; and***

- ***the Scheme will not have an impact on service standards experienced by the policyholders of Transfercom or the policyholders of SJNKI.***

Further details of the reasons for these conclusions are summarised below. For a full understanding of the conclusions that I have reached, together with the rationale for those conclusions, it is important to read my Report. It is also important that the limitations and assumptions contained therein are borne in mind when interpreting these conclusions.

Summary of the Independent Expert's Review of the Scheme

9. Security of Policyholders

9.1 Security is provided by the excess of assets (Available Capital) over general insurance business liabilities. Margins in the basis used to value liabilities also contribute to policyholder security.

9.2 I therefore need to consider the likely effects of the Scheme on the security of the policyholders of SJNKI whose policies are to be transferred, and the current policyholders of Transfercom by comparing their position if the Scheme were or were not implemented and my conclusions are described below.

9.3 A key issue I have had to consider in the course of my work is whether there will be enough capital in Transfercom post-Scheme to avoid the transferring policyholders of SJNKI being materially adversely impacted. I have also considered whether the current policyholders of SJNKI are materially adversely impacted.

The Existing Policyholders of Transfercom

9.4 If the Scheme were not implemented, Transfercom policyholders would remain with a medium-sized, very well-capitalised company in run-off. (I describe what I mean by a sufficiently capitalised, well-capitalised or very well-capitalised company in the Appendix to this summary).

9.5 In assessing the likely effect of the Scheme on the policyholders of Transfercom (including those who become policyholders between the date of this summary and the Effective Date), the main risk to consider would normally be that the liabilities from the Transferring Business currently in SJNKI deteriorate post-Scheme to such an extent that Transfercom's solvency is threatened. If the Scheme is approved, however, a loss portfolio transfer ("LPT") reinsurance agreement ("LPTA") will come into effect on the Effective Date under which National Indemnity Company ("NICO"), the parent company of Transfercom, will reinsure Transfercom in respect of the Transferring Business.

9.6 Transfercom's purchase of LPT reinsurance from NICO protects Transfercom against future deteriorations in the liabilities of the Transferring Business, i.e. it effectively eliminates the reserving risk arising from the Transferring Business. The cover available under the LPT reinsurance is such that I believe that there is only a very remote risk of the cover becoming exhausted. In addition, the LPTA covers expenses associated with the Transferring Business, including direct and indirect claims handling costs. I have also considered the terms and conditions of the LPTA and am satisfied that the LPTA includes appropriate clauses restricting NICO's ability to terminate the LPTA or to avoid paying claims under it. Given that NICO is one of the world's largest (re)insurance companies and is rated AA+ ('Very Strong') by Standard & Poor's (albeit on negative credit watch), I believe that the risk of default is remote.

9.7 ***I have concluded that the security of the existing policyholders of Transfercom would not be materially adversely affected by the Scheme.***

The Transferring Policyholders of SJNKI

9.8 If the Scheme were not implemented, the policyholders of the UK Branch would remain with Japan's largest non-life insurance company (measured by premiums written).

9.9 In assessing the likely effect of the Scheme on the policyholders of the Transferring Business, the main risk to consider is that Transfercom, post-Scheme, would not be financially secure.

9.10 I have reviewed the reserving basis used by Transfercom to value liabilities. Based on my review, I am satisfied that the reserves are reasonable for the purposes of describing the effect of the Scheme.

9.11 I also considered the capital strength of Transfercom pre-Scheme on both Solvency I and the Solvency II[1] bases. In particular, I have considered the reasonableness of the key assumptions used in the inputs to the Solvency II standard formula[2] template, and the results of the calculations (as at 31 December 2014). In assessing the reasonableness of the assumptions and results, I have considered how they compare against my knowledge of the market and similar Solvency Capital Requirement ("SCR") calculations (for run-off entities). This led me to conclude that, before the proposed Scheme, the level of capital held is such that by Transfercom could be characterised as a very well-capitalised company under Solvency II.

---

[1] Solvency II is the regulatory regime that will apply to (re)insurance companies across Europe from 1 January 2016. It will set the basis for the regulatory risk-based capital requirement for (re)insurance companies in the EU (and will replace Solvency I). It will also involve changes to the way in which firms are governed and risk is managed, and the regulatory and public reporting they need to perform.

[2] The Standard Formula is a method for assessing the regulatory capital for an insurer under Solvency II (the other approaches are to use an internal model or a partial internal model). The standard formula is designed to be applicable to all insurers and is not therefore tailored to the circumstances of an individual insurer. In plain terms, the basic SCR consists of 5 risk modules (non-life, life, health, market and counterparty) that are in turn further sub-divided into 18 sub-modules (e.g. premium and reserve risk, catastrophe risk and currency risk). The results for each sub-module are aggregated using a correlation matrix to arrive at a capital charge for each of the 5 main modules, which in turn are aggregated using a further correlation matrix to determine the basic SCR. A further module is used to calculate operational risk which is added to the basic SCR to produce the (standard formula) SCR

9.12 I considered how this assessment would change post-Scheme, both in terms of changes to the level of capital held and changes to the risks that Transfercom faces:

- The level of capital held by Transfercom post-Scheme would not be reduced as a result of the Scheme;
- Essentially, there would be no increase in the reserving risk to which Transfercom is exposed, as any potential deterioration in the liabilities of the Transferring Business would in all but very remote circumstances be recoverable under the LPTA;
- The Scheme would lead to an increase in Transfercom's exposure to reinsurance credit risk. Given that the reinsurer is NICO, however, and given that NICO is one of the world's largest (re)insurers and is rated AA+ ('Very Strong') by Standard & Poor's (albeit on negative credit watch) I believe that the risk of default is remote;
- The required level of Solvency II regulatory capital will increase as a result of the Scheme since the Standard Formula includes a charge related to reinsurance credit exposure, although the impact on the Standard Formula SCR is not material because of the AA+ rating of NICO. The capital held by Transfercom will, therefore, remain in excess of the post-Scheme Standard Formula SCR, and Transfercom would continue to be characterised as a very well-capitalised company.

9.13 Based on my assessment of the pre-Scheme Standard Formula SCR and my assessment of the likely changes to capital and risks resulting from the proposed Scheme, I am satisfied that the level of capital held by Transfercom post-Scheme would be such that it could continue to be characterised as a very well-capitalised company. Nothing emerged during the course of my work that would give me concerns as to the financial strength of Transfercom if the Scheme were to go ahead. ***I have concluded that the security of the policyholders of the Transferring Business would not be materially adversely affected by the proposed Scheme.***

The Remaining Policyholders of SJNKI

9.14 The Scheme will have little impact on the financial strength of SJNKI, given the small size of the UK Branch in relation to SJNKI as a whole. ***I have concluded that the security of policyholders remaining with SJNKI would not be adversely affected by the proposed Scheme.***

10. <u>Levels of Service</u>

10.1 Claims administration for the Transferring Business is currently the responsibility of SJNKI's UK Branch, albeit out-sourced to Resolute Management Limited ("Resolute"), under a run-off management agreement that commenced on 6 March 2015 and runs through to the Effective Date. After the Scheme, claims administration will become the responsibility of Transfercom. Transfercom uses Resolute (a shared services company that performs services for a number of Berkshire Hathaway's companies operating in the UK) to perform its claims handling; this will continue to be the case for the Transferring Business.

10.2 ***I do not anticipate any change in the level of service to the policyholders of the Transferring Business as a result of the proposed Scheme.***

11. <u>Other Considerations</u>

11.1. The Scheme will have no effect on the eligibility of any group of policyholders to bring complaints to the FOS. If they are currently able to bring complaints to the FOS, this will remain the case after the implementation of the Scheme. If they are currently not eligible to complain to the FOS (as is the case for the reinsured policyholders under the Transferring Business) this will also remain the case after the implementation of the Scheme. For the avoidance of doubt, since Transfercom is a UK insurer, any current rights of access to FOS of SJNKI's policyholders will not be affected.

11.2. After the implementation of the Scheme, as with all other insurance companies with an establishment in the UK, Transfercom will continue to be required to participate in the FSCS. Therefore, the eligible policyholders under the Transferring Business will continue to be protected by the FSCS if the Scheme is sanctioned. However, the FSCS does not provide any protection for reinsurance policyholders, so the reinsured policyholders of the Transferring Business would not be afforded protection under the FSCS. For the avoidance of doubt, the protection afforded by the FSCS to any policyholder under the Transferred Business who currently benefits from such protection will continue.

11.3. As stated in paragraph 11.2 above, Transfercom will continue to participate in the FSCS post-Scheme. Thus, there will be no loss of the protection afforded by the FSCS (including that provided in the winding-up scenario) to the eligible policyholders of Transfercom as a result of the Scheme.

11.4. There is no loss of rights of access to the FOS for the eligible policyholders of Transfercom as a result of the Scheme.

11.5. ***I am satisfied that the policyholders are not adversely affected by the Scheme in relation to the FSCS arrangements and in relation to the FOS arrangements.***

11.6. I have considered the impending implementation of Solvency II, and I am satisfied that SJNKI and Transfercom are both presently preparing to meet their respective requirements under Solvency II on its introduction. I do not believe the Scheme will impact in a materially adverse manner on the separate approaches of SJNKI and Transfercom to meeting and complying with the requirements of Solvency II.

Update Report

12. My analysis has been based upon the material supplied me, including balance sheets and other information based on audited accounting positions as at 31 December 2014 for Transfercom, and 31 March 2015 for SJNKI. As the proposed date of the Scheme is 28 February 2016, I will need to revisit these assumptions closer to the time to confirm that there have been no material changes to the arrangements that I have reviewed that would affect my overall opinion. I will prepare and issue (as necessary) an update report to be made available to the Court prior to the Final Court Hearing.

Gary Wells, FIA

10 November 2015

Appendix

For the purposes of my comparative analysis of the excess assets/capital levels of Transfercom and SJNKI pre and post the proposed Scheme, I have considered the extent to which each company holds capital in excess of its regulatory solvency level, in which case the actual capital that the company under consideration holds (the "Available Capital") will be greater than the "Required Capital" calculated. I refer to the ratio of Available Capital to Required Capital as the "Capital Cover Ratio". For the purposes of the terms I use in this Report, a company with sufficient capital (relative to the regulatory capital requirement under consideration) will have a Capital Cover Ratio just greater than 100%. I describe a company as well capitalised if it has a Capital Cover Ratio greater than 150%, and very well capitalised if it has a Capital Cover Ratio in excess of 200%.