SUMMARY OF SCHEME AND INDEPENDENT EXPERT'S REPORT

Proposed transfer of part of the businesses of

HCC International Insurance Company Plc and

Tokio Marine Kiln Insurance Limited

1. OVERVIEW

1.1 It is proposed that businesses of the EEA branches of HCC International Insurance Company Plc ("**HCCI**") and of the EEA branches of Tokio Marine Kiln Insurance Limited ("**TMKI**") will be transferred to Tokio Marine Europe SA ("**TME**") under a scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (the "**Act**") (the "**Proposal**").

1.2 HCCI, TMKI and TME are companies in the Tokio Marine Group.

1.3 HCCI is an insurance company incorporated in England and Wales. It is authorised to effect and carry out contracts of insurance and reinsurance by the UK prudential regulator, the Prudential Regulation Authority ("**PRA**").

1.4 TMKI is an insurance company incorporated in England and Wales. It is authorised to effect and carry out contracts of insurance and reinsurance by the PRA.

1.5 Under the terms of the Proposal, all of the insurance and reinsurance contracts under which an EEA branch of HCCI or TMKI is the insurer or reinsurer will be transferred to TME. The terms of those contracts however will not otherwise be affected as a result of the transfer. Consequently, policyholders need to take no action in relation to claims or premiums.

1.6 TME is a *société anonyme* incorporated in Luxembourg. TME is authorised by the Luxembourg insurance regulator, the *Commissariat aux Assurances* ("**CAA**"), to effect and carry out contracts of insurance and reinsurance.

1.7 The transfer is proposed so that the Tokio Marine Group will be able, through TME, to administer and pay claims under the policies written through EEA branches of HCCI and TMKI after the UK leaves the European Union.

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 a UK insurance company 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 HCCI and TMKI made an application to the Court in respect of the Proposal by a Claim Form issued on 13 July 2018. The Court hearing is expected to take place on 16 November 2018. 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 HCCI's business, TMKI's business or TME'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 14 November 2018, to Hogan Lovells International LLP (the solicitors acting for HCCI and TMKI) 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 00.01 am on 1 January 2019 (the **"Effective Date"**).

3. SUMMARY OF THE SCHEME

3.1 Transfer of the insurance and reinsurance contracts of the EEA branches of HCCI and TMKI to TME

The insurance and reinsurance contracts under which an EEA branch of HCCI or TMKI is the insurer or reinsurer will be transferred to TME in accordance with the Scheme on the Effective Date (except as provided in paragraph 3.3 below). TME will become the insurer or reinsurer under each transferring insurance and reinsurance contract for which HCCI or TMKI is currently the insurer or reinsurer.

3.2 Litigation

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

3.3 Excluded policies

If any insurance or reinsurance contract of an EEA branch of HCCI or TMKI is excluded from the transfer for any reason, then that contract will not be transferred to TME.

However, HCCI and TMKI have no reason to believe that any such insurance or reinsurance contract 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 websites:

http://www.tokiomarinekiln.com/about-us/brexit/
or
https://www.tmhcc.com/en/about-us/brexit

and will also be provided, free of charge, by Hogan Lovells International LLP, solicitors for HCCI and TMKI, whose details are given in section 2.3 of this document.

SUMMARY INDEPENDENT EXPERT REPORT OF PHILIP TIPPIN FIA

In the matters of

TOKIO MARINE KILN INSURANCE LIMITED (TMKI)

AND

HCC INTERNATIONAL INSURANCE COMPANY PLC (HCCI)

AND

TOKIO MARINE EUROPE SA (TME)

AND IN THE MATTER OF PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

IN THE HIGH COURT OF JUSTICE

DATED 11TH JULY 2018

Introduction

I, Philip Tippin, am a partner in the actuarial practice of KPMG LLP ('KPMG'). I have been a Fellow of the Institute and Faculty of Actuaries for 19 years. I have been appointed by TMKI and HCCI (together the 'Transfer Companies') to act as the Independent Expert in connection with the proposed transfer described below (the 'Transfer'). My appointment was approved by the Prudential Regulation Authority ('PRA') in consultation with the Financial Conduct Authority ('FCA') on 30th November 2017.

This summary report covers the main conclusions of my Independent Expert's Report. As noted in the Independent Expert's Report, I have not considered any alternative arrangements to those set out in the Transfer documents submitted to the High Court of Justice of England and Wales ('the Court'). I have relied on data and other information made available to me by the Transfer Companies. While I have received written confirmation from the Transfer Companies of the accuracy of the information provided to me, I have not sought independent verification and my work does not constitute an audit of the financial or other information provided to me.

This summary must be considered in conjunction with the Independent Expert's Report and reliance must not be placed solely on this summary. Both this summary and the Independent Expert's Report must be considered in their entirety, including the limitations on their use as set out in the Independent Expert's Report. In the event of any real or perceived conflict between this summary and the Independent Expert's Report, the latter shall be definitive.

The Proposed Transfer

On 23 June 2016, the UK held a nationwide referendum which asked the electorate whether they wanted the UK to remain part of or to leave the European Union ('EU'). The referendum resulted in a majority vote to leave the EU, a situation commonly referred to as 'Brexit', and the consequences of this vote are still uncertain. The UK formally served notice under Article 50 of the Lisbon Treaty on 29th March 2017 and has now entered a prescribed period of up to two years to negotiate on the terms of its exit from the EU. Amongst the expected consequences of Brexit are that UK and European insurers that have been using so-called 'passporting rights' to transact business across the EU will have to restructure their businesses in order to be able to continue renewing existing contracts and also to continue to legally service existing contracts. The Transfer from TMKI and HCCI to TME acts to mitigate against the risk that the business currently underwritten through passporting and Branch regulation via EU directives would not be licenced following Brexit. It aims to have minimal impact on policyholders, with the same claims, administration, actuarial and other teams.

TME is a new company that was incorporated in Luxembourg on 8th February 2018 with eight new European branches to replicate the current European operations of TMKI and HCCI. At the date of this report TME has not underwritten any policies. It is intended that TME will begin underwriting EU renewals from the TMKI and HCCI portfolios after authorisation is received.

TMKI is a non-life insurance company regulated in the UK. The policies underwritten by the following European branches: France, Germany, Spain, Italy, The Netherlands and Belgium, will be transferred to TME along with any reinsurance obligations and certain other assets and liabilities. This represents approximately 46% of the total TMKI current gross written premium. The transferring business will include a number of lines of business, including Property, Casualty, Marine, and Accident and Health. This business will then be reinsured so that there is no material economic impact of the Transfer on the TMKI balance sheet. Japanese Designated Account Management Program (DAMP) business will be reinsured back from TME directly to TMNF and TME's other (TMKI originated) business will be reinsured back to TMKI. Economically TMKI will retain the same risks it had before the Transfer.

HCCI is a speciality non-life insurance company regulated in the UK. TME is a subsidiary of HCCI and policies underwritten by the following branches: France, Germany, Spain, Italy, Ireland and Norway, will transfer to TME. This represents approximately 30% of the current total gross written premium from HCCI. HCCI's transferring business will include a number of lines of business including Financial Lines, Credit and Political Risk, Surety and Contingency/Disability. TME will then reinsure the Financial Lines business back to HCCI.

The proposed effective date for the completion of the Transfer is 1 January 2019.

To the best of my knowledge, information and belief, I have no conflicts of interest in connection with the parties involved in the proposed Transfer, either through my professional work, my personal relationships or my financial relationships. I therefore consider myself able to act as an Independent Expert on this transaction. In reporting to the Court on the proposed Transfer my overriding duty is to the Court. This duty applies irrespective of any person or firm from whom I have been instructed or paid.

Copies of the Independent Expert's Report are available at the following links:

http://www.tokiomarinekiln.com/about-us/brexit/; and

https://www.tmhcc.com/en/about-us/brexit.

Overview of my analysis

In considering the impact of the proposed Transfer on the security of policyholders, I have considered both the impact of the Transfer on the financial resources available to support policyholders and also a number of non-financial impacts on how a customer's experience may change as a result of the Transfer.

My approach to considering the effect of the Transfer on service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Transfer were to proceed, and to compare any changes with the arrangements that would be in place were the Transfer not to take place.

I have identified the following groups of policyholders and have considered the interests of each group separately:

1. Non-Transferring HCCI policyholders;
2. Non-Transferring TMKI policyholders;
3. Transferring HCCI policyholders
    a. who currently have access to the FSCS;
    b. who do not have access to the FSCS;
4. Transferring TMKI policyholders
    a. who currently have access to the FSCS;
    b. who do not have access to the FSCS;
5. Any existing TME policyholders at the effective date of the Transfer.

The UK Financial Services Compensation Scheme ('FSCS') protects individual policyholders and small businesses in the event of financial services firms, such as insurance companies failing. Transferring HCCI policyholder groupings 3a and 3b have been split out because of differences in their FSCS rights. This is also the case for Transferring TMKI policyholder groupings 4a and 4b. These for each company sub groupings (a) and (b) will be combined in this report, with the exception of sections detailing rights to FSCS.

What is the non-financial impact of the Transfer?

In the Independent Expert's Report, I have considered the impact of any changes as a result of the Transfer to each of:

i) the FCA's Treating Customers Fairly principles;
ii) the ease of presenting a new claim;
iii) protection of customer data;
iv) the impact of 'Brexit'; and
v) Other considerations including regulatory framework, executive management and governance.

<u>*Treating Customers Fairly*</u>

Claims and policy administration

The claims service provided both before and after the transfer will continue to the same service standard and be performed by the same staff as it was pre-Transfer. In addition to this, the First Notification of Loss phone number (and address) on the original policy documents remains unchanged. Any existing unsettled claims when the Transfer becomes effective will continue to be handled by the same claims team.

Therefore there is no anticipated impact on HCCI, TMKI or TME policyholders with regard to claims and policy administration.

Conduct risk

The Board is responsible for conduct risk for both TMKI and HCCI. Both also have a specific committee dedicated to monitoring conduct risk. TME will adopt this structure, where the Product Governance and Distribution Committee will govern Conduct Risk but overall responsibility will remain with the Board. I do not believe there will be any adverse impact upon HCCI, TMKI or TME policyholders as a result of the Transfer.

Protection of customer data

Cyber security risk is a relatively new and increasing threat to businesses today. Cyber-attacks on companies are becoming more frequent. These attacks can take forms such as gaining access to and selling or publicising customers' data, or preventing the business from operating as usual. Cyber security is, therefore, becoming ever more paramount. It is a reasonable expectation of a customer that their insurer should take appropriate steps to protect their confidential data.

There is no expectation that the protection of customers' data will diminish as a result of the Transfer and I conclude that there is no risk of any material adverse impact on policyholders with respect to data loss resulting from the Transfer. Cyber-attacks are often attempted on businesses, so there is always the risk that one may be successful, but the Transfer does not appear to increase that risk in any way. I therefore identify no impact on HCCI, TMKI or TME policyholders as a result of the Transfer.

The impact of 'Brexit'

At the time of my Independent Expert's Report there remains much political and economic uncertainty within the UK surrounding Brexit. Whilst there are many potential consequences, the one with the most potential to affect the business models of the Transfer Companies is the risk that UK insurance businesses would lose their rights under EU law to do business across the European single market (and that European insurance businesses could lose their right to trade in the UK). These rights under EU law are known as 'passporting rights'.

It remains unlikely that there will be clarity on what the ultimate position on passporting rights will be before the effective date of the Transfer on 1 January 2019.

The primary purpose of the Transfer is to remove uncertainties around the servicing of policies following Brexit for the Transferring policyholders. Other policyholders (non-Transferring TMKI and HCCI policyholders and any existing TME policyholders at the effective date of the Transfer) are not moving and their circumstances and risk profile with regard to Brexit uncertainties do not change. There is therefore no adverse impact on any of the policyholders with regard to Brexit uncertainties as a result of the Transfer, and in fact the situation improves for the Transferring policyholders.

If the transfer does not go ahead, there is a risk that the business currently underwritten through passporting and Branch regulation via EU directives, which includes policyholder groups 3 and 4, would not be licenced following Brexit. The aim of the transfer is to mitigate this risk with minimal impact on policyholders, with the same claims, administration, actuarial and other teams.

Other considerations (regulatory framework, executive management and governance)

HCCI and TMKI are both companies incorporated in England and Wales and regulated by the PRA and FCA. As such the same regulatory framework applies both before and after the Transfer. There is no change in entitlement to protection under the FSCS for any group of remaining policyholders, and there is no change in access to the FOS.

Transferring policyholders from each of TMKI and HCCI that currently have access to protection from the FSCS will retain access to the FSCS and do not presently have (and will not gain) access to the FOS. They will gain access to the Luxembourg equivalent of the FOS - the Insurance Ombudsman which is run by the ACA and ULC. There are no Luxembourg financial compensation schemes relating to the classes of business written by TME. These subgroups of policyholders therefore do not suffer any adverse impact on their FSCS or FOS protections as a consequence of the Transfer. In the event that FSCS protection were not to continue for any reason the loss of this protection would not be material to policyholders in any case given the high levels of capital protection maintained by the Transfer Companies.

Transferring policyholders from each of TMKI and HCCI that do not currently have access to protection from the FSCS also do not presently have access to the FOS, so can lose neither of these as a consequence of the Transfer. They also will gain access to the Luxembourg equivalent of the FOS - the Insurance Ombudsman which is run by the ACA and ULC, but no other financial compensation schemes (as mentioned above). These subgroups of policyholders therefore do not suffer any adverse impact on their FSCS or FOS protections as a consequence of the Transfer.

There will be no other changes to the framework of TMKI and HCCI as part of the Transfer that I am aware of.

Will the Transfer impact the security of policyholders?

I identify no material adverse change in the economic circumstances of any of the relevant policyholder groups.

Non-transferring HCCI policyholders have a capital coverage ratio of 288% before the transfer and 203% after. There is a decrease in the capital cover ratio yet it is still well over 100%.

Non-transferring TMKI policyholders have a capital coverage of 153% before the transfer and 153% after. Therefore they are still well covered.

The capital coverage ratio for TME is 201% compared to 228% for HCCI pre-Transfer. Despite the decrease the ratio is comfortably over 100%.

The capital coverage ratio for TME is 201% compared to 153% for TMKI policyholders pre-Transfer. This increase means there is a positive effect on policyholders transferring from TMKI to TME.

New reinsurance as part of Brexit Project

With the exception of intra-group reinsurance covers, the reinsurance protections of the Transfer Companies are mainly placed as part of group reinsurance purchases, which list the names of all covered group entities. The Transfer Companies intend that TME is added to these existing group reinsurance covers such that reinsurance protection continues for Transferring policyholders as though nothing were changing. The reinsurance contracts protecting HCCI cover its subsidiary companies, and hence TME will automatically be included in the cover of these contracts. As a further measure to transfer outwards reinsurance protections, these are to be transferred under the Scheme, to the extent not already transferred by consent. In respect of TMKI, the next reinsurance contract renewal will take place on the 1st June 2018.

The intragroup protections will remain largely unchanged for TMKI and HCCI. After the Transfer a number of intra-group reinsurances will be put in place that, for current TMKI policyholders, aim to maintain the economic liability for risks with the same company that they are with before the Transfer. For HCCI and TME the reinsurances being put in place aim to ensure that TME's balance sheet is not exposed to excessive instances or aggregations of risk.

I conclude that no policyholder is materially adversely affected by the changes to the reinsurance arrangements.

Overall conclusion

I have considered the Transfer and its likely effect on each of the relevant policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed Transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in my report.

I will issue a supplemental report containing the most up-to-date financial information prior to the final hearing at which the Court's sanction for the Transfer will be sought. This report will also address any market developments, updates on Brexit, and any policyholder responses following communications in respect of the Transfer to policyholders (as referred to in my Independent Expert's Report).

Philip Tippin

Fellow of the Institute and Faculty of Actuaries

Partner, KPMG LLP

11th July 2018