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 11 JULY 2018

Contents

1. Introduction

The Proposed Transfer

1.1 Tokio Marine Holdings, Inc. is listed on the Tokyo Stock Exchange and is an insurance holding company for businesses conducting primarily insurance and securities business around the world. In this report I refer to the group of companies conducting this business as the 'Tokio Marine Group'. Within the United Kingdom ('UK') there are a number of Tokio Marine Group companies underwriting non-life insurance and reinsurance business both for policyholders within the United Kingdom and for policyholders in other European Union ('EU') countries utilising so-called 'passporting' rights obtained through the UK's membership of the EU. These include Tokio Marine Kiln Insurance Limited ('TMKI'), and HCC International Insurance Company PLC ('HCCI'), both of which are ultimately subsidiaries of Tokio Marine & Nichido Fire Insurance Co. Ltd. ('TMNF').

TMKI is a non-life insurer and reinsurer whose main lines of business include Property and Casualty, Marine and Aviation, Accident and Health.

HCCI writes a wide range of non-life insurance business such as Financial Lines, Professional Indemnity, Accident and Health, Credit and Political Risks, Surety, Property and Energy.

1.2 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 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 29 March 2017 and is currently in a negotiation period of up to two years to negotiate the terms of its exit from the EU.

A potential implication of Brexit is the loss of insurance passporting rights for UK insurance companies. In order to continue to underwrite insurance business in the EU after Brexit the Tokio Marine Group is establishing a new insurance company in Luxembourg which is a subsidiary of HCCI. This company is called Tokio Marine Europe SA ('TME'). It is also currently unclear whether existing 'passported' insurance contracts will be able to be serviced after Brexit within the law, which means that it could be illegal for TMKI and HCCI to pay some otherwise valid claims. Therefore it is proposed that the policies underwritten by TMKI and HCCI through their European branch network be transferred to TME under the provisions of Part VII of the Financial Services and Markets Act 2000 ('FSMA') under a scheme to be approved by the High Court of Justice, England and Wales('the Court') in order to protect policyholder rights.

TME is a wholly owned subsidiary of HCCI and will be capitalised from HCCI's excess of capital. TME will underwrite European business which is currently underwritten by HCCI and TMKI. TME is based in Luxembourg and was incorporated on February 8th 2018. TME has a branch structure which mirrors the current structure existing in HCCI and TMKI.

The policies that will be transferring to TME are those policies written through one of the following existing branches of TMKI or HCCI:

TMKI transferring business from branches in:

- Belgium
- France
- Germany
- Italy
- The Netherlands
- Spain

HCCI transferring business from branches in:

- France
- Germany
- Ireland
- Italy
- Norway
- Spain

Scope and Purpose of this Report

1.3 Under FSMA, a proposed transfer of (re)insurance business from one entity to another can only take place if it has been sanctioned by the Competent Authority for the appropriate jurisdiction, in this case the High Court of Justice. As part of the approval process a report is required from an expert (the 'Independent Expert') to aid the Court in its deliberations.

1.4 As Independent Expert, it is my duty to the Court to consider the impact of the Transfer on the policyholders of the Transfer Companies, along with any other policyholders affected by the Transfer. In particular, it is my duty to consider the impact on their security and service levels for their benefits as set out in Appendix 2. In this instance, I have not identified any policyholders other than those of the Transfer Companies to be potentially affected.

I confirm that the comments and conclusions in this report apply to all policyholders of TMKI, HCCI and any future policyholders of TME, before the effective date of the Part VII Transfer, irrespective of their place of residence and/or jurisdiction within which the business is said to be carried on or in which their policy was issued.

1.5 I have prepared this report to address the Part VII transfer of part of the businesses of TMKI and HCCI to TME.

I refer in this report to the transfer of insurance business from TMKI and HCCI to TME as the 'Transfer'. I refer to TMKI, HCCI and TME as the 'Transfer Companies', with TMKI and HCCI the 'Transferors' and TME the 'Transferee'. Additional terms used in this report are set out in the glossary of terms at Appendix 5 (see section 1.21).

1.6 This report does not consider any possible alternative arrangements to those referred to in sections 1.1 and 1.2. I am not aware of any other significant transaction relating to the Transfer Companies other than those set out in sections 1.1 to 1.2

1.7 This report describes the proposed transfers and discusses their possible effects on the relevant policyholder groups, including effects on security and levels of service.

This report is organised into seven sections as follows:

Section 1 – The purpose of this report and the role of the Independent Expert

Section 2 – Executive summary and conclusions

Section 3 – Relevant background information on each of the Transfer Companies

Section 4 – Setting out the effect of the Transfer on the Transfer Companies

Section 5 – Discussion of the potential impact of the Transfer on stakeholders

Section 6 – Consideration of the appropriateness of the information provided to me which informs my opinion, including consideration of methodologies for calculations used in provision of data and scenarios following the Transfer taking effect that may affect policyholder security

Section 7 – Summary of findings

The Independent Expert

1.8 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. My detailed curriculum vitae is included in Appendix 1.

1.9 I have been appointed by TMKI and HCCI to act as the Independent Expert in connection with the Transfer. My appointment has subsequently been approved by the Prudential Regulation Authority ('PRA') on 30 November 2017, following consultation with the Financial Conduct Authority ('FCA').

1.10 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 and I therefore consider myself able to act as an Independent Expert on this transaction.

1.11 I confirm that I have no financial interest in the Transfer Companies, nor do I work for any entity belonging to the Tokio Marine Group. Neither I, nor any of my immediate team assisting me in producing this report, have carried out any work with the Transfer Companies or any of the wider Tokio Marine Group companies over the last three years.

1.12 I confirm that the contribution of the Tokio Marine Group and its subsidiaries to KPMG's global fee income has not exceeded 0.1% over the last 3 years.

1.13 The costs and expenses associated with my appointment as Independent Expert and the production of this report will be charged to TMKI and HCCI. For the avoidance of doubt, I note that no costs of the Scheme will be borne by policyholders.

1.14 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.

Reliances

1.15 I understand that my role is to produce a report in a form approved by the PRA in consultation with the FCA for submission to the Court. Whilst I have been assisted by my team, the report is written in the first person singular and the opinions expressed are my own.

1.16 My work has been based on the data and other information made available to me by the Transfer Companies. A list of data and other information that I have considered is shown in Appendix 4.

I have not sought independent verification of data and information provided to me by the Transfer Companies, nor does my work constitute an audit of the financial and other information provided to me. Where indicated, I have reviewed the information provided for reasonableness and consistency and with the benefit of my experience this has not raised any concerns. I note that the information has been provided to me by members of the senior management of the Transfer Companies or by responsible senior professionals from the Transfer Companies' advisors.

Where possible I have obtained audited financial information, and have received reports from independent third parties. In any case I have considered the sources of all data I have received before placing any reliance on it, and have sought representations where I consider it appropriate.

I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted. This includes the legal advisers and the tax advisers to the Transfer, where appropriate.

Where significant pieces of information have been provided orally I have requested and received written confirmation.

There are no documents or other information that I have requested that have not been provided to me. Appendix 4 contains a list of the information upon which I have relied.

As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the proposed Transfer and in preparing my report, which should be drawn to the attention of policyholders in their consideration of the terms of the proposed Transfer.

Use and limitations

1.17 This report must be read in its entirety. Reading individual sections in isolation may be misleading.

1.18 Copies of this report will be sent to the relevant UK financial regulators: the PRA and the FCA. This report will be used in evidence in the applications submitted to the Court. It will also be made available to policyholders and other members of the public as required by the relevant legislation and will be made available on a dedicated website.

This report has been prepared under section 109 of FSMA in a form approved by the PRA on 10th July 2018 in consultation with the FCA.

This report is prepared solely in connection with, and for the purposes of, informing the Court, the PRA, the FCA and policyholders of the Transfer Companies of my findings in respect of the impact of the Transfer on the security and service levels of policyholders (including, for the avoidance of doubt, those who benefit from the cover provided under the relevant insurance policies) and may only be relied on for this purpose. This report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter of 22 November 2017. An extract from this letter describing the scope of my work is contained in Appendix 2.

This report should not be regarded as suitable to be used or relied on by any party wishing to acquire any right to bring an action against KPMG LLP in connection with any other use or reliance. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of this report to any other party, other than as defined in my firm's engagement letter referenced above.

1.19 In the normal course of conducting my role as Independent Expert, I have been provided with a significant and appropriate amount of information and data about the Transfer Companies' activities and performance. In forming my view as set out in this report, this information has served a necessary and vital contribution. Due to a combination of legal, regulatory and commercial sensitivities some of the information I have relied upon to reach my conclusions cannot be disclosed in a public report such as this. However I can confirm that appropriate detailed information has been provided to me to enable me to form the opinions I express to the Court in this report.

Professional guidance

1.20 This report has been prepared in accordance with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol/guidance for the instruction of experts to give evidence in civil claims (2014) issued by the Civil Justice Council.

This report also complies with the guidance for transfer reports set out in the Statement of Policy issued by the PRA in April 2015 entitled 'The Prudential Regulation Authority's Approach to Insurance Business Transfers' and in Chapter 18 of the Supervision Manual of the FCA Handbook, in particular, sections 18.2.31 to 18.2.41 inclusive, regarding the content and considerations of the report.

In preparing this report I have taken into account the requirements of the Technical Actuarial Standards ('TASs') issued by the Financial Reporting Council. The TAS Standards which apply to the work performed in preparing this report are Principles for Technical Actuarial Work ('TAS 100') and Insurance ('TAS 200'). In my opinion, there are no material departures from any of these TASs in my performance of this work and this report. I have also followed the guidance set out in 'APS X2: Review of Actuarial Work' and this report has been peer reviewed by the reviewer approved by the PRA and FCA in accordance with this guidance.

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this.

Terminology

1.21 In my discussion of the effects of the proposed Transfer on the Transfer Companies concerned, I use various technical terms. The definitions of these terms as used in this report are contained in the Glossary in Appendix 5.

In considering the proposed Transfer, the FCA's Treating Customers Fairly ('TCF') principles should be applied. To ensure that customers are treated fairly in the future, it is necessary to establish the ways in which customers have been treated in the past. From the policyholders' perspective, the successful implementation of the Transfer must be on the basis that their benefits and fair treatment are not materially adversely affected.

1.22 I make reference throughout this report to financial items or events that are material or immaterial. I consider an event immaterial if the expected impact of the event is very small, such that it would not influence the decisions of a reader, either on its own or in conjunction with other immaterial events. This could be because the event has a very low probability of occurring, a very low financial impact if it did occur, or a combination of these. Similarly a financial item (such as an insurance claim reserve for a particular line of business) is immaterial if its value is very small in the context of the whole, and the probability of significant variability in the value of that item in the context of the whole is similarly small. Conversely material items and events would be of such a size that they could influence the decisions of a reader of this report, and where I have identified these I have considered them specifically in my discussion of the effects of the proposed Transfer.

2. Executive Summary & Conclusions

Overview of the Transfer

2.1 This report considers the impact of the proposed transfer of the insurance business of TMKI and HCCI to TME on affected policyholders.

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 back to TMKI 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 will be 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.

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. TME will underwrite the same classes of business that are transferring in, and will also underwrite some additional classes currently written by HCCI, where there are European risks, such as Property Treaty.

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

2.2 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. If the Transfer does not proceed then any loss of passporting rights would mean that it could be illegal for TMKI and HCCI to service EU policyholders or to pay otherwise valid claims to them.

2.3 TMKI and HCCI intend to communicate details of the Transfer to their policyholders. TMKI and HCCI propose to directly notify their policyholders (with the exclusion of specific groups listed below) and also plan to advertise the Transfer through publications in the UK, Belgium, France, Germany, Italy, Netherlands, Spain, Ireland and Portugal. The advertisements will contain details of a dedicated website from which documentation relating to the Transfer can be downloaded. Contact details for questions or requests will also be provided on the website.

Waivers are being sought in respect of the following:

- Publications in other EEA states not listed above due to small number of policyholders in these states.
- Non-transferring policyholders.
- Most policyholders whose contracts were written via Brokers and Coverholders will not be contacted directly. Notice of the transfer will be provided to the Brokers and the Coverholders only, unless they have an outstanding claim in which case they will be contacted directly.

2.4 Although it is not part of my scope as Independent Expert I have been asked to comment on the appropriateness of the communications waivers requested in connection with the Transfer. I provide my reasoning in Appendix 7. I note and accept though that the Court is the ultimate arbiter on the communication required and any waivers in respect of the same, and the PRA and FCA will also have their own opinions on these issues.

When considering the proposed approach to notifications, I have considered a number of factors, including the likelihood of a policyholder having a claim, whether the policyholder's policy is transferring and the impact of the Transfer on the security of the policyholders. I have also considered the practicality of notifying policyholders.

I consider the proposed approach for communicating the Transfer to be appropriate, reasonable and proportionate. I consider that the non-circularisation to the specific groups of policyholders of TMKI and HCCI (as set out above in summary and in Appendix 7 in detail) is appropriate, reasonable and proportionate given the circumstances of those policyholders.

Approach

2.5 My approach to assessing the likely effects of the Transfer on policyholders is to:

- Understand the businesses of the entities affected by the Transfer; and
- Understand the effect of the Transfer on the assets and liabilities of the companies and businesses involved.

The above stages are contained in sections 3 and 4 of this report.

Having identified the effects of the Transfer on the various companies and businesses, I then do the following in section 5:

- Identify the relevant groups of policyholders within each company;
- Consider the impact of the Transfer on the security of each group of policyholders and other stakeholders; and
- Consider other non-financial aspects of the impact of the Transfer (for example, policyholder service and the claims handling process).

2.6 Financial and economic information considered

In order to consider the effect of the proposed Transfer on each of the entities and groups of policyholders concerned, I have been provided with comparative information for each legal entity, including:

- Accounting (UK GAAP) and Solvency II balance sheet information based on the most recently audited balance sheet figures as at 31 December 2016 and the unaudited accounts as at 30 September 2017 for all entities;
- Actuarial reserve reports for TMKI and HCCI;
- Own Risk and Solvency Assessments ('ORSA's) for TMKI and HCCI;
- The regulatory capital required for each entity as at 31 December 2016 and 30 September 2017.
- Internal management information provided over the course of preparing this report.

I will issue a supplemental report containing the most up-to-date financial information prior to the final hearing, at which sanction to proceed with the Transfer will be sought from the Court. This will provide an update to the Court on my conclusions in respect of the effect of the proposed Transfer on the different groups of policyholders, in light of any significant events subsequent to the date of the finalisation of this main report.

In forming my opinion, I have conducted a number of interviews with key personnel responsible for core functions in the Transfer Companies (a complete list of interviewees is provided in Appendix 6), and I have placed reliance on, amongst other information, estimates of the capital required to be held by the Transfer Companies (such that the companies are able to fulfil their policyholder obligations in the event of an extreme event or scenario) provided by the Transfer Companies. I describe how I have used this information in performing my analysis in more detail in section 6. In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have considered:

- The appropriateness of the methods used by the Transfer Companies to calculate the estimates of capital requirements; and
- The impact of a set of specific severe adverse events on each of the Transfer Companies pre and post Transfer in order to gain comfort that, at a high level, the capital estimates are reasonable.

The above stages are contained in section 6 of this report.

Key Assumptions

2.7 In conducting my analysis I have assumed the following:

- The Transfer is expected to be broadly tax neutral for all of the Transfer Companies. Details on advice provided by specialist VAT tax advisors is contained in section 4.7. There is, however, a risk that a tax liability will be triggered in Germany as a result of the Transfer. The Transfer Companies are seeking to mitigate this risk and have been advised that the liability can be restricted to less than €2 million and amortised over a period of up to 15 years. As such the amounts involved are not material enough to change any of the conclusions in my report.
- In the unlikely event of the UK leaving the EU before the Effective Date, the UK will still follow the EU-wide prudential regulatory regime known as Solvency II, or an equivalent, going forward. I note though that the negotiations to lead to any exit of the EU can last up to two years from the point at which the UK Government formally gave notice to leave by triggering 'Article 50' on 29 March 2017, which most likely extends beyond the proposed Effective Date of this Transfer.
- Both TMKI and HCCI will continue to underwrite new business post Transfer.

The above assumptions underlie the analysis and conclusions in my report. If these assumptions were to change my opinion may also change. At the time of writing my report the above assumptions are in line with the current intentions for the Transfer and the Transfer Companies and I have received written representations from the Transfer Companies substantially similar to those in Appendix 3 confirming my understanding.

Findings

2.8 The findings of my report are summarised below. The detailed explanation behind these conclusions follows in the body of this report:

- I have identified seven distinct policyholder groups. These are:

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 policyholder groupings will be combined in this report, with the exception of sections detailing rights to FSCS.

- Given the levels of capital cover (as a proportion of the regulatory minimum requirement) held by all Transfer Companies, I expect the chance that any of them would not be able to meet its respective future obligations in full to be remote, and I therefore conclude that no existing, or transferring policyholder will suffer material detriment to their security if the Transfer proceeds.

- With respect to the transferring policyholders of TMKI and HCCI, I consider there to be a positive impact on these policyholders as a result of the proposed transfer due to the continued strong capital coverage post transfer and the risk that claims could not be paid after Brexit, through loss of passporting, being removed.

- With respect to the non-transferring TMKI and HCCI policyholders, I consider there to be no material adverse impact on these policyholders as a result of the proposed Transfer.

- With respect to policyholders that may exist within TME before the effective date of the transfer, I consider there to be no material adverse impact on these policyholders as a result of the proposed Transfer.

- In terms of regulatory supervision, and the protections available to policyholders of the Transfer Companies, there is not expected to be any change for the transferring policyholders of HCCI and TMKI. TME will have a UK branch, which will be established initially by the exercise of passport rights. TME will also apply to the PRA for direct authorisation of the UK branch, so that (even assuming that passport rights will cease to apply after the UK leaves the EU) the PRA and FCA will directly regulate TME's UK branch. The UK branch of TME will only underwrite incidental EU risks sourced through its UK operations.

- Policyholders who had access to the FSCS before the transfer will continue to have the same access to the Financial Services Compensation Scheme that they had before. FSCS protection will continue to apply to claims under transferring policies arising before or after the effective date of the Transfer, because TME is a participant firm within the scope of the FSCS regime (initially, as an incoming EEA firm exercising passport rights and in future as an authorised UK branch). In respect of such claims, transferring policyholders will not have access to any additional compensation scheme in Luxembourg. 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.

- Policyholders who did not have access to the FSCS before the transfer will continue without this access as before the transfer. In respect of such claims, transferring policyholders will not have access to any additional compensation scheme in Luxembourg.

- Presently, the transferring policyholders of HCCI and TMKI do not have access to the Financial Ombudsman Service ('FOS'). This is because the compulsory jurisdiction of the FOS does not cover the activities of a UK insurer which are carried on through an establishment located outside the UK. After the Transfer the transferring policyholders will have access to an Insurance Ombudsman which is run by the Association of Insurance Companies ('ACA') and the Luxembourgish Consumers Association ('ULC').

- There will be no material change to the capital management policy, governance, or risk committee structure as a result of the Transfer. There will be representatives from the TMKI and HCCI board on the executive board of TME and operations of the transferring business will remain similar and there will be minimal change following the Transfer.

- Following the transfer, operations will continue to be administered by the same people using the same systems as before the transfer. As a result, there will be no substantial change in the standards of service which the policyholders of the Transfer Companies will receive.

- There will be no impact on the ability for policyholders to present new claims, and no impact on the protection of customer data as a consequence of the Transfer.

I have considered the Transfer and its likely effect on each of the 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 this report.

Expert's declaration

2.9 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

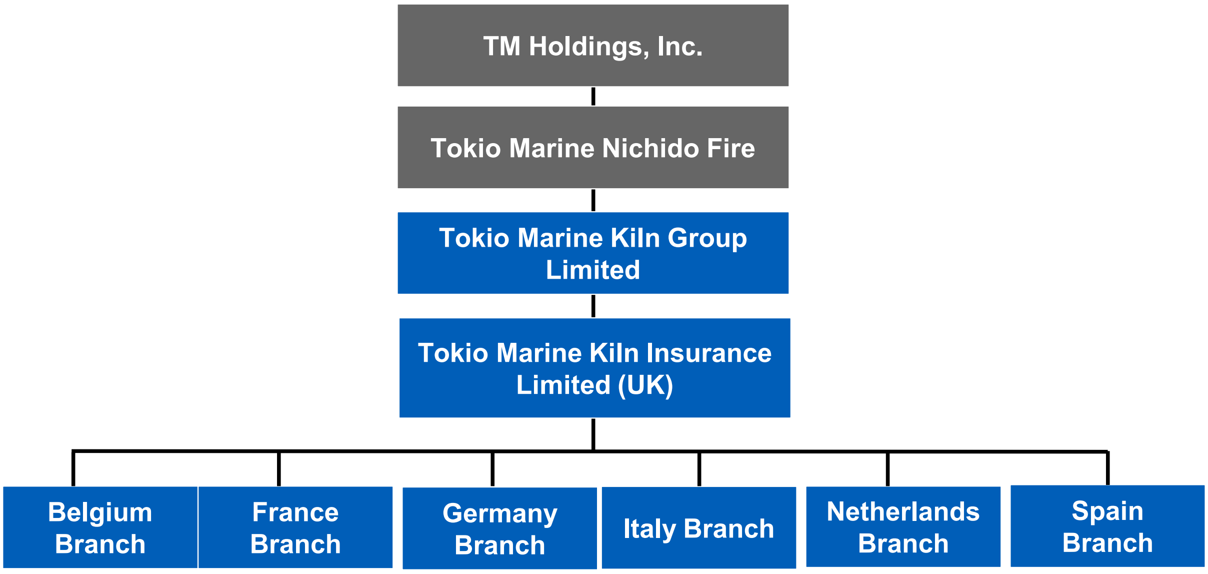
Philip Tippin
Fellow of the Institute of Actuaries
Partner, KPMG LLP
11th July 2018

3. Background

Tokio Marine Kiln Insurance Limited

3.1 TMKI is a subsidiary of Tokio Marine Kiln Group Limited. TMKI is a UK regulated company and a subsidiary of TMNF, a Japanese regulated entity engaged in property and casualty insurance and reinsurance business. This is part of the wider Tokio Marine Group. TMKI has an A+ security rating (from S&P) and predominately writes the following lines of business: Property and Casualty, Marine and Aviation, Accident and Health.

The diagram below shows the current simplified legal structure of TMKI pre Transfer.



3.2 TMKI is authorised by the PRA, regulated by the PRA and the FCA, and as a consequence some policyholders are covered by the Financial Services Compensation Scheme ('FSCS').

The FSCS is a statutory scheme funded by members of the UK financial services industry. It provides compensation to individual and some small business holders of policies issued by UK insurers in the UK or another EEA state who are eligible for compensation under the FSCS in the event of the insurer's default.

Under current FSCS rules, liability claims which are subject to compulsory insurance or professional indemnity insurance or claims which arise from death or incapacity of a policyholder due to injury to sickness are 100% protected and other types of policies are 90% protected. Reinsurance contracts, as well as Goods in Transit, Marine, Aviation and Credit Insurance are not covered by the FSCS.

3.3 The table below provides an overview of the annual financial performance of TMKI from 31 December 2013 to 2016 on a UK GAAP basis:

TMKI Premium volumes and net assets have remained relatively stable over the past few years.

TMKI (000's)	2016 (£)	2016 ($) $1=£0.813	2015 (£)	2015 ($) $1=£0.675	2014 (£)	2014 ($) $1=£0.641	2013 (£)	2013 ($) $1=£0.605
Net earned premium	127,044	156,302	122,131	180,986	131,129	204,666	128,678	212,679
Company (loss)/ profit after taxation	(7,569)	(9,312)	(25,371)	(37,598)	(3,139)	(4,899)	6,818	11,269
Gross Insurance Liabilites	(312,908)	(384,971)	(271,173)	(401,851)	(242,369)	(378,290)	(263,820)	(436,041)
Other Liabilities	(93,068)	(114,502)	(91,773)	(135,999)	(74,741)	(116,656)	(156,279)	(258,298)
Total Liabilities	**(405,976)**	**(499,472)**	**(362,947)**	**(537,850)**	**(317,110)**	**(494,945)**	**(420,099)**	**(694,339)**
Reinsurance Assets	115,451	142,039	89,885	133,201	84,356	131,663	120,982	199,959
Other Assets	414,761	510,281	405,013	600,189	369,690	577,012	434,414	717,999
Total Assets	**530,212**	**652,320**	**494,898**	**733,390**	**454,046**	**708,675**	**555,396**	**917,959**
Net Assets	**124,236**	**152,848**	**131,952**	**195,540**	**136,936**	**213,730**	**135,297**	**223,619**

The table below provides an overview of the Solvency II balance sheet as at 31 December 2016 (Q4 2016) and as at 30 September 2017 (Q3 2017).

TMKI (000's)	Q3 2017 (£)	Q3 2017 ($) $1=£0.745	Q4 2016 (£)	Q4 2016 ($) $1=£0.813
Gross Solvency II Technical Provisions	(344,648)	(462,379)	(289,729)	(356,454)
Other Liabilities	(72,453)	(97,025)	(54,465)	(67,008)
Total Liabilities	**(417,101)**	**(559,404)**	**(344,194)**	**(423,462)**
Reinsurance Assets	131,794	176,814	95,183	117,103
Other Assets	376,963	505,842	348,928	429,286
Total Assets	**508,756**	**682,656**	**444,111**	**546,389**
Net Assets	**91,655**	**123,252**	**99,917**	**122,928**
Own Funds	**153,602**	**206,360**	**124,917**	**153,685**
SCR	**100,333**	**134,607**	**100,333**	**123,440**
Capital Cover Ratio	153%	153%	125%	125%

The difference between Own Funds and Net Assets arises due to the addition of Ancillary Own Funds held by TMKI. The substantial increase in gross technical provisions and associated reinsurance assets between Q4 2016 and Q3 2017 are the result of an increase in written premiums and reserves over time. TMKI is well capitalised and has excess of assets over liabilities.

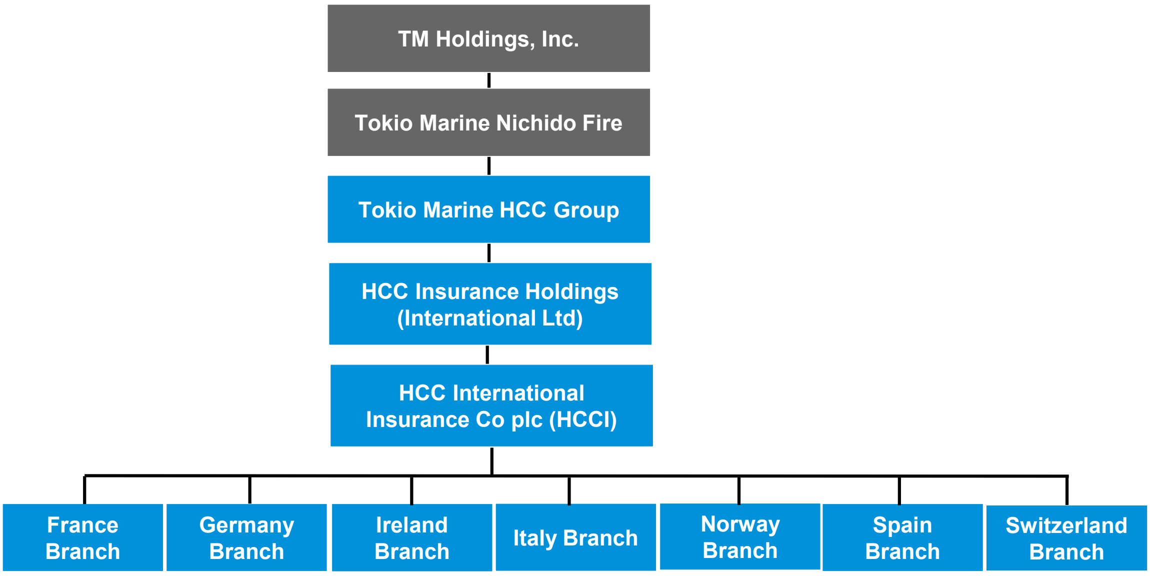
There is an increase in own funds during this period, which is driven by additional assets from letters of credit being approved by the PRA to count as ancillary own funds.

HCC International Insurance Company PLC

3.4 HCCI is a subsidiary of HCC Insurance Holding, Inc., which is a US company acquired by TMNF in 2015. HCCI has a security rating of AA- (from S&P) and predominately writes the following lines of business: Financial Lines, Professional Indemnity, Accident and Health, Credit and Political Risks, Surety, Property and Energy.

3.5 HCCI is authorised by the PRA, regulated by the PRA and the FCA, and eligible policies are also covered by the FSCS.

The diagram below shows the current simplified structure of HCCI, pre Transfer:



3.6 The table below provides an overview of the annual financial performance of HCCI from 31 December 2013 to 2016 on a UK GAAP basis:

HCCI ($000's)	2016	2015	2014 £1=$0.64	2013 £1=$0.61
Net Earned Premium	**431,774**	**390,531**	**348,858**	**362,261**
Profit/(Loss) after tax	138,098	41,228	76,768	21,850
Gross Insurance Liabilities	(993,666)	(1,136,231)	(858,054)	(784,622)
Other Liabilities	(214,041)	(184,637)	(173,943)	(166,151)
Total Liabilities	**(1,207,707)**	**(1,320,868)**	**(1,031,998)**	**(950,773)**
Reinsurance Assets	333,060	360,242	215,337	187,105
Other Assets	1,501,617	1,440,000	1,259,125	1,139,182
Total Assets	**1,834,677**	**1,800,242**	**1,474,463**	**1,326,288**
Net Assets	**626,970**	**479,374**	**442,465**	**375,515**

There has been a large increase in premium and liabilites over the period 2015-2016. The increase in 2015 arose from the merger of the Spanish company Houston Casualty Company Europe into HCCI.

3.7 The table below provides an overview of the Solvency II balance sheet as at 31 December 2016 and 30 September 2017.

HCCI ($000's)	Q3 2017	Q4 2016
Gross Solvency II Technical Provisions	(780,816)	(744,511)
Risk Margin	(46,759)	(42,825)
Other Liabilities	(161,768)	(174,985)
Total Liabilities	**(989,344)**	**(962,321)**
Reinsurance Assets	266,691	275,242
Other Assets	1,412,731	1,309,026
Total Assets	**1,679,421**	**1,584,268**
Net Assets	**690,077**	**621,946**
Own Funds	**690,077**	**621,946**
SCR (Q4)	302,200	321,900
Capital Cover Ratio	228%	193%

HCCI is well capitalised and has material excess of assets over liabilities.

Tokio Marine Europe SA

3.8 TME is being established and authorised in Luxembourg. It will be regulated by the Commissariat Aux Assurances. Policyholders will not be protected under any financial compensation schemes but they will have access to an Insurance Ombudsman run by the ACA and the ULC.

3.9 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 and new EU business after authorisation is received. Any such policyholder will be made aware of the proposed Transfer.

3.10 The table below shows a summary of the projected operating results of TME in year 1:

TME $'000	Year 1
Gross Written Premium	292,420
Net Written Premium	86,617
Total Operating Expense	26,519
Net Income	7,533

Insurance business of the Transfer Companies

3.11 As a consequence of the Transfer the insurance and reinsurance obligations in respect of the transferring policyholders and certain other assets and liabilities of the Transferring Companies will transfer to TME.

The tables below show comparative metrics for the Transfer Companies at the last audited date available. Open claims information is provided for the Transferring Companies in order to give an indication of the outstanding claim volumes transferring to TME. Technical Provisions are shown for all Transfer Companies in order to give perspective on the size of the entities involved. These are Solvency II TPs on a best estimate basis, excluding risk margin, as at 31st December 2016.

Transferring Classes of Business	TMKI				Transferring to TME			
	Open Claim Numbers	Gross Outstanding Claims (£)	Gross Technical Provisions (£)	Net Technical Provisions (£)	Open Claim Numbers	Gross Outstanding Claims (£)	Gross Technical Provisions (£)	Net Technical Provisions (£)
Accident & Health	1,259	5,447,765	8,934,341	6,058,192	272	4,960,262	8,157,284	5,670,882
Marine	6,137	37,907,565	52,768,321	13,921,807	4,346	11,300,156	13,757,303	6,672,705
Property	4,123	71,343,882	107,942,176	79,155,765	3,353	51,426,304	60,349,946	39,358,196
Liability and Assistance	3,110	45,308,094	101,897,607	79,346,248	2,122	24,644,414	39,269,176	24,845,668
Financial & Professional Lines	595	1,567,415	4,347,608	3,425,148	64	1,450,355	3,250,277	2,479,089
Total	**15,224**	**161,574,721**	**275,890,054**	**181,907,160**	**10,157**	**93,781,491**	**124,783,987**	**79,026,541**

Transferring Classes of Business	HCCI				Transferring to TME			
	Open Claim Numbers	Gross Outstanding Claims ($)	Gross Technical Provisions ($)	Net Technical Provisions ($)	Open Claim Numbers	Gross Outstanding Claims ($)	Gross Technical Provisions ($)	Net Technical Provisions ($)
Worker's Compensation	289	21,189,546	26,651,623	16,887,104	-	-	(8,301)	(9,153)
Marine, Aviation, Transport	510	21,896,846	43,596,902	31,337,569	-	-	(165,278)	323,103
Property	62	1,202,042	4,639,504	7,032,144	-	-	(796,305)	494,420
Liability	3,577	144,411,026	367,491,619	260,886,915	2,049	95,184,223	244,883,358	7,596,181
Credit & Surety	2,927	48,158,275	141,471,617	97,509,657	1,616	22,171,196	42,712,653	18,028,241
Other	284	9,195,718	15,387,950	8,717,350	171	6,540,718	11,484,063	8,490,717
Non Transferring LOBs	8,027	101,351,133	145,271,527	69,973,673	-	-	-	-
Total	**15,676**	**347,404,586**	**744,510,742**	**492,344,414**	**3,836**	**123,896,137**	**298,110,190**	**34,923,509**

3.12 Noteworthy liability types in the Transfer

I am not aware of any significant unusual types of liabilities that would cause policyholder concern.

Outwards reinsurance programmes

3.13 The Transfer Companies have purchased reinsurance protections to mitigate their insurance risks. These protections are typical of those used by other insurance companies for the types of insurance business underwritten by the Transfer Companies.

3.14 The key risk protections are as follows:

- TMNF (DAMP) insurance: provides complete reinsurance protection for Japanese Interests Abroad 'JIA' business of TMKI's business. These arrangements are collateralised in part and supported partially or entirely by a guarantee from TMNF.
- There is also additional external Excess of Loss reinsurance held. All external reinsurance treaties relating to the transferring portfolio from TMKI and HCCI will also be transferred. Both TMKI and HCCI have begun to include TME as a party in all reinsurance treaties. In respect of past reinsurance treaty contracts HCCI have confirmed that TME is already covered as a subsidiary.

Prudential capital requirements

3.15 The Transfer Companies are currently subject to a prudential capital regime which requires them to meet a solvency capital requirement calibrated to ensure that policyholders are secure at the 99.5% confidence level of potential future liability outcomes over a single year.

This is part of the EU wide regulatory regime for insurance companies known as 'Solvency II', which was introduced with effect from 1 January 2016.

Other key requirements of this regime are as follows:

- Insurance entities must calculate their Solvency II capital requirement ('Solvency Capital Requirement' or 'SCR') either using a set of rules specified in EU legislation (the 'Standard Formula'), or, subject to the approval of their regulator, using an internally developed Economic Capital model (an 'internal model'). In either case, the determinants of the solvency capital requirement relate to the nature of the risks within the regulated entity, including market related investment risk, insurance risk arising from new business or existing liabilities, and other business risks including credit risk and operational risk.

- A range of minimum standards relating to insurance entity governance and disclosure have been introduced (known as 'Pillar II' and 'Pillar III'), including a requirement to perform and document an ORSA.

- TMKI and HCCI currently use the Standard Formula to calculate their solvency capital requirement. I note that the Transfer Companies also make use of an internal model for their ORSA and for internal purposes. The TMKI internal model and Standard Formula give a similar overall SCR. HCCI's use of the internal capital model produces a result lower than the Standard Formula. The reasons for the differences are understood and HCCI believe that the Standard Formula SCR is not inappropriate for use for regulatory capital purposes.

- Regulatory capital requirements are defined in terms of an SCR and a Minimum Capital Requirement ('MCR'). The requirements are calculated based on a complex formula based on items including the technical provisions, written premiums, reinsurance and deferred tax.

- The method with which insurance entity balance sheets and capital are calculated for regulatory purposes is now based on largely economic measures of assets and liabilities, rather than accounting based measures.

- If an insurer's available resources fall below the SCR, then supervisors are required to take action with the aim of restoring the insurer's finances back to the level of the SCR as soon as possible. If, however, the financial situation of the insurer continues to deteriorate, then the level of supervisory intervention will be progressively intensified. The aim of this 'supervisory ladder' of intervention is to identify any ailing insurers before a serious threat to policyholders' interests is realised. If, despite supervisory intervention, the available resources of the insurer fall below the MCR, then 'ultimate supervisory action' will be triggered. This means that the insurer's liabilities could be transferred to another insurer, the licence of the insurer withdrawn, the insurer closed to new business and its in-force business liquidated.

I note that:

- Luxembourg is also subject to Solvency II regulation.

- I have reviewed the Solvency II Standard Formula calculations of the Transfer Companies to compare the relative difference in policyholder positions before and after the transfer of liabilities. The appropriateness of this approach and more detailed description of this analysis can be found in section 5.9 below.

- I have considered the stress tests included within the ORSAs produced by each of the Transfer Companies in determining the stress tests to apply when considering the policyholder security for each Group in section 6 below.

Capital management policy

3.16 Both TMKI and HCCI employ a capital management policy to hold an excess amount of capital over the regulatory capital. TMKI's policy is to hold capital between 100% and 130% of the regulatory capital requirement. HCCI also holds a margin in excess over required regulatory capital. HCCI aim to hold the amount required plus an additional margin which represents a 1 in 25 year return period modelled loss. TME will adopt this additional margin representing a 1 in 25 year return period buffer.

3.17 Both HCCI and TMKI have not paid dividends for number of years. HCCI has no specific dividend policy, while TMKI is subject to Tokio Marine Group dividend policy. TME will have no specific dividend policy.

3.18 The minimum regulatory capital cover levels implied by the risk appetites within the intended capital management policy are sufficiently in excess of the regulatory minimum such that the probability of default remains a remote possibility.

Guarantees / risk sharing arrangements

3.19 TMKI currently has a parental guarantee from TMNF. If TMKI fails to meet any of its policyholder obligations, policyholders can recover any unpaid amounts on demand and unconditionally from TMNF.

HCCI has a parental guarantee from Tokio Marine HCC Group. As TME will be a wholly owned subsidiary of HCCI, TME will also benefit from the parental guarantee from Tokio Marine HCC Group which has an S&P rating of AA-.

Neither HCCI nor Tokio Marine HCC Group have a parental guarantee from TMNF.

Pension Scheme Obligations

3.20 TMKI has a very small amount of defined benefit schemes in respect of employees from the Netherlands Branch. There are 6 employees in total in this scheme, of which 2 are deferred members, who will be transferring from TMKI to TME. TMKI has confirmed to me that the scheme is well funded and therefore is not considered to impact the transfer. The annual funding requirement for 2017 was 75,000 euro. The fund value of this scheme is circa 420,000 euro. All other pension schemes are defined contribution schemes, both in respect of TMKI and HCCI employees.

4. Effects of the Transfer

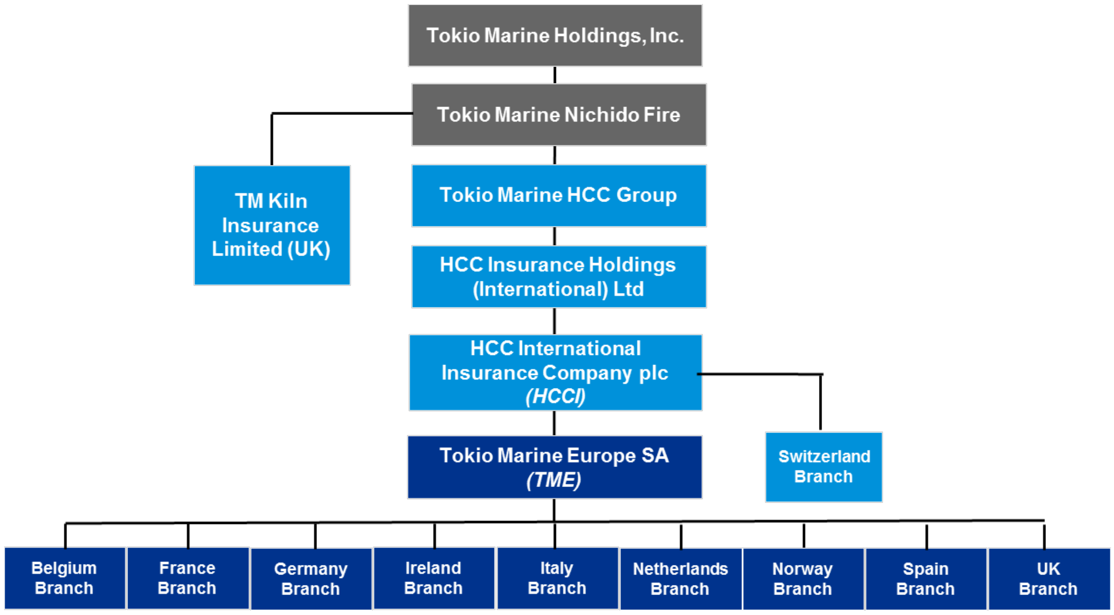
Purpose of the Transfer

4.1 The Transfer of TMKI and HCCI's European business into TME will mitigate the risk that business already underwritten through passporting by the existing TMKI and HCCI branches would not be able to be serviced following Brexit. In particular this means that any premiums due can still be legally received or refunded, and that valid claims would be allowed to be paid legally. The sole purpose of the Transfer is to protect these fundamental policyholder entitlements. Neither TMKI nor HCCI wish to go through the time and expense of such a Transfer for any other commercial purpose.

Effect of the Transfer on Tokio Marine Group structure

4.2 As a consequence of the Transfer the insurance and reinsurance obligations and certain other assets and liabilities of TMKI and HCCI will transfer to TME.

The structure chart after the Transfer shows a simplified Tokio Marine Group Structure (with relevant entities to the Transfer):



Financial effects of the Transfer

Effect of the Transfer on Transfer Company balance sheets

4.3 I have carried out my analyses based on figures as at 31 December 2016 and 30 September 2017 for the purposes of this Independent Expert Report, however I will update the analyses to include more recent financial information in a supplemental report when these updated figures are available.

4.4 For the purpose of this report, I have considered the balance sheets post transfer on a UK GAAP basis. However, going forward TME will be presented as LUX GAAP. There are no material differences between the accounting treatments of items in the statutory accounts of TMKI and HCCI as presented in Section 3 that would result in a risk to the solvency of the companies.

4.5 The tables below illustrate the UK GAAP financial position of the Transfer Companies following the Transfer based on the financial position of the Transfer Companies at 31 December 2016

(Q4 2016), and the unaudited position at 30 September 2017 (Q3 2017) assuming that all assets and liabilities of the transferring business at each date were to transfer to TME:

UK GAAP Balance Sheet (000's)	As At Q4 2016 $1=£0.813			As At Q3 2017 $1=£0.745			As At Q3 2017 $1=£0.745			
	TMKI (£)	TMKI ($)	HCCI ($)	TMKI Pre Transfer (£)	TMKI Pre Transfer ($)	HCCI Pre Transfer ($)	TMKI Post Transfer (£)	TMKI Post Transfer ($)	HCCI Post Transfer ($)	TME ($)
Assets										
Financial Investments	230,720	283,855	1,118,406	222,270	298,197	1,202,774	222,270	298,197	1,056,193	146,582
Cash and Cash Equivalents	81,615	100,411	119,754	119,679	160,562	134,297	116,094	155,752	120,120	18,987
Reinsurance Assets	115,451	142,039	333,060	154,142	206,797	353,581	79,620	106,818	299,967	599,896
Other Assets	102,426	126,015	263,457	144,078	193,295	256,759	97,917	131,365	344,812	133,052
Total Assets	530,212	652,320	1,834,677	640,169	858,850	1,947,412	515,900	692,132	1,821,092	898,517
Shareholders' Equity										
Total Shareholder's Equity	124,236	152,848	626,970	110,236	147,893	649,642	110,236	147,893	649,642	100,000
Liabilities										
Technical Provision	312,908	384,971	993,666	403,983	541,984	1,108,744	332,211	445,695	997,553	637,510
Reinsurance Liabilities	70,395	86,607	51,447	88,143	118,252	56,391	57,979	77,784	47,797	65,337
Other Liabilities	22,673	27,895	162,594	37,807	50,721	132,635	15,475	20,761	126,100	95,670
Total Liabilities	405,976	499,472	1,207,707	529,933	710,957	1,297,770	405,664	544,239	1,171,450	798,517
Net Assets	124,236	152,848	626,970	110,236	147,893	649,642	110,236	147,893	649,642	100,000
Deductions for participation in investment	0	0	0	0	0	0	0	0	100,000	0
Own Funds net of deductions for participation in investment	124,236	152,848	626,970	110,236	147,893	649,642	110,236	147,893	549,642	100,000

TMKI's and HCCI's net assets remain the same before and after the transfer. TME's net assets are positive showing the UK GAAP position of TME is viable.

4.6 The tables below illustrate the Solvency II financial position of the Transfer Companies following the Transfer based on the Solvency II balance sheet of the Transfer Companies as at 31 December 2016, and 30 September 2017, assuming that all assets and liabilities of the transferring business as at each date had transferred:

Solvency II Balance Sheet (000's)	As At Q4 2016 $1=£0.813			As At Q3 2017 $1=£0.745			As At Q3 2017 $1=£0.745			
	TMKI (£)	TMKI ($)	HCCI ($)	TMKI Pre Transfer (£)	TMKI Pre Transfer ($)	HCCI Pre Transfer ($)	TMKI Post Transfer (£)	TMKI Post Transfer ($)	HCCI Post Transfer ($)	TME ($)
Assets										
Financial Investments	228,361	280,953	1,118,101	250,951	336,675	1,211,237	250,951	336,675	1,068,973	142,264
Reinsurane Assets	95,183	117,103	275,242	131,794	176,814	266,691	65,837	88,327	186,403	553,585
Cash and cash equivalents	81,614	91,897	119,754	88,640	118,921	134,297	85,056	114,111	116,490	22,617
Any other assets, not elsewhere shown	38,953	47,923	71,171	37,371	50,246	67,196	29,032	38,949	175,393	50,177
Total Assets	444,111	546,389	1,584,268	508,756	682,656	1,679,421	430,876	578,063	1,547,259	768,643
Liabilities										
SII Technical Provisions- Non Life & Health	289,729	356,454	787,336	344,648	462,379	827,575	285,314	382,778	713,299	559,387
Deferred Tax Liability	-	-	16,979	-	-	26,421	-	-	26,421	-
Reinsurance Liabilities	47,289	58,179	22,989	58,152	78,016	27,736	43,463	58,310	18,567	48,176
Any other liabilites, not elsewhere shown	7,176	8,829	135,017	14,302	19,009	107,612	10,225	13,717	98,895	47,557
Total Liabilities	344,194	423,462	962,321	417,101	559,404	989,344	339,002	454,805	857,182	655,119
Excess of assets over liabilites	99,917	122,928	621,946	91,655	123,252	690,077	91,874	123,258	690,077	113,524
Other Eligible Own Funds	25,000	30,758	-	61,947	83,108	-	61,947	83,108	-	
Own Funds	124,917	153,685	621,946	153,602	206,360	690,077	153,820	206,366	690,077	113,524
Deductions for participation in investment	0	0	0	0	0	0	0	0	113,524	0
Own Funds net of deductions for participation in investment	124,917	153,685	621,946	153,602	206,360	690,077	153,820	206,366	576,554	113,524

In both tables 4.5 and 4.6, TMKI shows a neutral net asset position pre and post transfer; this is due to the transferring business being reinsured back. The consolidated HCCI net asset position remains unchanged too as the Transferred business consolidates back up to the original underwriter. Whilst net asset positions remain unchanged, the lines in the table do not simply sum across as changes in the reinsurance programme impact the technical provisions and reinsurance assets in particular. TMKI reinsures back the net of other reinsurance exposure after the Transfer, which is less than the gross exposure that is being transferred, so both reinsurance asset and technical provisions will reduce by comparable figures. HCCI's own funds fall by an amount equal to the investment in TME. There has been significant growth between Q4 2016 and Q3 2017 for the TMKI business.

Cost and tax impact of the Transfer

4.7 Tokio Marine has sought expert tax advice from Ernst & Young in regard to the potential tax implications of the transfer. There are no specific tax rules that apply to a Part VII transfer as it is considered a transfer of trade hence general principles apply.

It was concluded by the tax advisors that if the Part VII transfer occurred in exchange for shares then it is unlikely that there would be any material tax implications for TME, TMKI or HCCI. TMKI and HCCI have confirmed that TME will be wholly owned by HCCI. I understand that TME will issue one share to each of TMKI and HCCI, TMKI will transfer its share to HCCI. There is, however, a risk that a tax liability will be triggered in Germany as a result of the Transfer. The Transfer Companies are seeking to mitigate this risk and have been advised that the liability can be restricted to less than €2 million and amortised over a period of up to 15 years. As such the amounts involved are not material enough to change any of the conclusions in my report.

4.8 I understand that most costs associated with the Transfer will be incurred whether or not the Transfer proceeds, as the majority of these costs relate to activities occurring prior to the sanction hearing (for example, with respect to legal fees and policyholder communications). Therefore I identify no significant additional costs arising from the implementation of the Transfer. TMKI and HCCI will meet these costs.

Outward reinsurance

4.9 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. Both TMKI and HCCI have begun to include TME as a named party in all reinsurance 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 June2018.

4.10 The intragroup protections will remain largely unchanged for TMKI and HCCI. The so-called DAMP covers that protect some of the larger corporate risks underwritten by TMKI currently reinsure subject risks directly back to TMNF. After the Transfer the following new intragroup reinsurances will be put into place:

- Former TMKI DAMP business will be reinsured back from TME to TMNF directly**;**
- The other former TMKI business (net of other reinsurance) will be reinsured back to TMKI;
- There will be a new reinsurance contract for the new and renewal business (net of other reinsurance) between TME and TMKI for Japanese and Local Non-Japanese business that would otherwise have been written by TMKI;
- Former HCCI Financial Lines policies will be 100% reinsured (net of other reinsurance) through a quota share arrangement from TME to HCCI;
- There will be a new reinsurance contract for the new and renewal business (net of other reinsurance) between TME and HCCI for Financial Lines business that would otherwise have been written by HCCI; and
- An additional stop loss reinsurance treaty on Property treaty lines is being provided by HCCI to TME. This has the primary purpose to reduce the aggregate European windstorm exposure for TME within TME risk appetite guidelines (as TME would otherwise retain the majority of the European windstorm exposure on a much smaller balance sheet than HCCI) but will be a stop loss treaty covering all perils, not just European windstorm.

Capital management

4.11 HCCI has not paid dividends in the past 3-4 years to enable the group to build additional capital. TME is expected to follow the same capital management policy as it will consolidate up into the HCCI balance sheet. TME currently intends not to pay dividends for future years to raise further capital to support the SCR. TMKI has also not paid dividends.

Guarantees/risk sharing arrangements

4.12 The parental guarantees provided by TMNF and Tokio Marine HCC Group, as discussed in section 3.19, will stay in place after the Transfer.

Non-financial effects of the Transfer

4.13 I consider here the areas that a policyholder may have considered in their decision to buy their original policy and would therefore have reasonable expectations with regard to them on an ongoing basis. In particular I have considered the executive management (in that it sets the tone and culture for the company), claims handling, the ease of access to the company for complaints or policy administration, cyber security insofar as it protects the customer's data, and the regulatory protections that the policyholder benefits from.

Future intentions of TMKI, HCCI and TME

4.14 As stated in section 4.1, the sole purpose of the Transfer is to protect fundamental policyholder entitlements for policyholders buying insurance protection through the EU branches of TMKI and HCCI. The Transfer Companies aim to continue, in as close to their current form as possible, the current operations, such as in administration, actuarial work and governance.

There is no current intention to discontinue or deregister the operations of TMKI or HCCI.

Impact of the Transfer on competition

4.15 As proposed the Transfer should have no effect on competition as business is only being transferred intra-group.

Executive management

4.16 The TMKI and HCCI executive management teams will not change. TME will have an executive management team which will have representatives of both the TMKI and HCCI executive management teams. TME will have a new Independent Non-Executive Director (iNED) resident in Luxembourg, along with a new Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Actuary and Head of Compliance. There will also be two Chief Underwriting Officers (CUOs) (one is also on the TMKI board and one is also on the HCCI board); one for Japanese business, and one for the remaining business. The Board of Directors will also be comprised of an iNED from HCCI, the CEO, CFO and Chief Operating Officer (COO) of HCCI.

Administration of the business

4.17 TMKI and HCCI will continue to use the same IT systems and claims administration processes and hence there will be no change to either of these as a result of the Transfer.

TME will use the same systems and claims administration processes as HCCI, with a feed from the TMKI systems into the TME systems to enable finance systems to correctly pick up the gross exposures from former-TMKI Transferred business.

Contractual arrangements

4.18 The Transfer is to have no impact on contractual terms to transferring insurance policies, other than changing the party to the contract from TMKI or HCCI to TME. In addition, I understand that the Transfer is intended to have no impact on contractual terms and arrangements with third party contracts, other than changing the party to the contract from TMKI or HCCI to TME. Furthermore, there will be no impact on policy administration as a result of the Transfer, as TME will continue to be serviced by the same administrators as TMKI and HCCI.

Regulatory arrangements

4.19 TMKI and HCCI will continue to be regulated by the PRA and the FCA. Following the transfer there will be a change in regulatory environment for Transferring policyholders as TME's primary regulator will be the CAA, the Luxembourg regulator.

The non-transferring policyholders of TMKI and HCCI that are eligible for protection under the FSCS will retain this protection in the event that claims cannot be paid in full out of current reserves, capital and reinsurance. Similarly no non-transferring policyholders' right of access to the FOS will change as a result of the Transfer.

In terms of regulatory supervision, and the protections available to policyholders of the Transfer Companies, there is not expected to be any change for the transferring policyholders of HCCI and TMKI. TME will have a UK branch, which will be established initially by the exercise of passport rights. TME will also apply to the PRA for direct authorisation of the UK branch, so that (even assuming that passport rights will cease to apply after the UK leaves the EU) the PRA and FCA will directly regulate TME's UK branch. The UK branch of TME will only underwrite incidental EU risks sourced through its UK operations.

The UK Financial Services Compensation Scheme ('FSCS') protects individual policyholders and small businesses against a failure by a financial services firm, such as an insurance company. Policyholders who had access to the FSCS before the transfer will continue to have the same access to the Financial Services Compensation Scheme that they had before. FSCS protection will continue to apply to claims under transferring policies arising before or after the effective date of the Transfer, because TME is a participant firm within the scope of the FSCS regime (initially, as an incoming EEA firm exercising passport rights and in future as an authorised UK branch). In respect of such claims, transferring policyholders will not have access to any additional compensation scheme in Luxembourg.

Policyholders who did not have access to the FSCS before the transfer will continue without this access as before the transfer. In respect of such claims, transferring policyholders will not have access to any additional compensation scheme in Luxembourg.

Presently, the transferring policyholders of HCCI and TMKI do not have access to the FOS. This is because the compulsory jurisdiction of the FOS does not cover the activities of a UK insurer which are carried on through an establishment located outside the UK. After the Transfer the transferring policyholders will have access to an Insurance Ombudsman which is run by the ACA and the ULC.

Luxembourg and the UK are both currently members of the European Union, and follow the Solvency II regime for prudential regulation. Whilst there are minor differences between precisely how Solvency II has been implemented in each EU territory (for example the UK requires an external audit of the SCR for Standard Formula firms and has enshrined some of the key functional roles from Solvency II in the Senior Insurance Managers Regime, whereas Luxembourg has a less formalised process than the UK, key functional roles are usually specified in a narrative report written on the system of governance and the ORSA), the overall target level of capital that insurance undertakings should hold and the commitments to risk management required by the Solvency II legislation do not change. The Standard Formula calculation in particular does not vary between EU member states, so there is no real risk of material differences in policyholder security resulting from changing from one EU regulator to another.

Cyber security risk

4.20 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.

TME will have the same standards of IT/cyber security and the same cyber security team as HCCI. All entities will continue to carry out ongoing in-depth security and vulnerability reviews of security standards and processes. TME will hold its data in the same data warehouse as is currently used by HCCI.

Any data that is transferred over to TME from TMKI and HCCI is unlikely to be of a sensitive nature, however if it is then it will be governed by a GDPR compliant data transfer agreement.

Conduct risk

4.21 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.

Implications of Brexit

4.22 The whole purpose of the proposed Transfer is to mitigate the risks arising from Brexit. By transferring policies from TMKI and HCCI to TME the Transfer Companies guarantee that they will be able to continue to service those policies in the future. So for Transferring policyholders there will be no legal risk associated with the loss of passporting rights.

Any existing policyholders of TME at the effective date of the Transfer will have only had policies underwritten onto the TME balance sheet because their risks are located within the EU, so there is no additional Brexit risk for these policyholders as a result of the Transfer.

The situation for non-Transferring TMKI and HCCI policyholders is slightly more complicated. The proposed Transfer does not transfer all policies with some exposure in the EU (excluding the UK), but only those written through the branches using passporting rights. Both TMKI and HCCI write subscription market business in London, some of which includes European exposures on a Freedom of Services basis. As this business is written by many insurers, it is not at all straightforward to split the underlying policies so that the EU element of the risk is transferred. Under the proposed Transfer these policies will remain within TMKI and HCCI, and thus will be subject to some uncertainty as to how they will be serviced after Brexit whilst the negotiations between the UK and the EU continue. However, I note that nothing about this risk changes as a result of the proposed Transfer, and therefore these policies are exposed to exactly the same risks and uncertainties whether the Transfer proceeds or not.

5. Potential impact of Transfer on stakeholders

Overview of analysis performed

5.1 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. I have followed the following steps:

(i) I have considered the specific circumstances of different types of policyholder and divided them into distinct groups with similar characteristics.

(ii) I have considered the management and governance framework in place and the future intentions and strategies adopted by the Transfer Companies.

(iii) I have compared the position of each policyholder group in the event the Transfer proceeds with the position that they would be in if the Transfer does not proceed. I have considered the position of policyholders under the following headings:

(a) Financial resources available to pay future policyholder claims;

(b) Treating Customers fairly (with a particular focus on handling of claims);

(c) The ease of presenting a new claim;

(d) Protection of customer data;

(e) The impact of Brexit; and

(f) Other considerations.

(iv) I have further compared the position of policyholders before and after the Transfer under a variety of stressed scenarios to consider the ability of the Transfer Companies to deal with adverse scenarios.

(v) Having considered the change for each policyholder group under each of these categories, and considering the results of the stress scenarios, I have formed an opinion on the impact of the Transfer on each of the policyholder groups.

Bullets (i) to (iii) of the above follow here in section 5 of the report. The stress testing (bullet (iv)) is in section 6, and my conclusions (bullet (v)) are presented in section 7.

Identification of policyholder groups

5.2 Consideration of Policyholder groupings

5.2.1 Policyholder characteristics

I have identified a number of policyholder characteristics that could influence the impact of the Transfer on customers. The policyholder characteristics that I have considered include:

- The Transfer Company that the (re)insurance policy was covered by before the Transfer, and separately the Transfer Company that will provide the cover after the Transfer.
- The nature of the regulatory regime and other policyholder protections which apply before and after the Transfer to different groups of policyholders.
- The nature of the type of business written and whether policyholders are:

    i) Insurance or Reinsurance policyholders;

ii) Policyholders of compulsory or non-compulsory insurance;

- The length of time that policyholders are likely to continue to receive benefits under the terms of their policies;
- The ability of policyholders to access the financial resources of each Transfer Company in the event of them entering administration, rehabilitation or insolvency and how this changes as a result of the Transfer.

5.2.2 Reasoning for policyholder groupings

In selecting appropriate groupings of policyholders for my analysis I have considered the following:

- Under title IV of the Solvency II Directive reinsurance policyholders rank behind insurance policyholders in the event of the insolvency of an insurance business. The distinction then between reinsurance and insurance policyholders becomes important if there is a significant risk that any of the Transfer Companies could become insolvent in the short term. Given the levels of regulatory capital coverage that all of the Transfer Companies enjoy I consider such a possibility to be remote, and therefore do not distinguish between reinsurance and insurance policyholders in my analysis.
- Both Transferors are within an environment regulated by the PRA and FCA. The types of policies protected by the FSCS (outlined in section 4.19) will continue to be covered after the transfer for both Transferring and non-Transferring policyholders. Policyholders that are transferring will be regulated by the CAA, which does not confer any additional protection under any Luxembourg compensation scheme but will have access to an Insurance Ombudsman. As a consequence of this I separate the Transferring policyholders from each company into two sub-groups: those currently with FSCS protection and those without it. To avoid repetition in the analysis that follows I consider each pair of sub-groups of Transferring policyholders together for everything except the consideration of how this entitlement may change.

5.2.3 Policyholder groupings chosen

Based on my analysis of policyholder characteristics and the fact that there is no practical change in regulation as a result of the Transfer I have identified the following seven major policyholder groups. These are:

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.

Financial resources available to pay policyholder claims

5.3 Approach to assessing the impact of the Transfer on available financial resources

In the sections that follow I consider a number of items that contribute to the change in financial resources for the different policyholder groups as a consequence of the Transfer. First of all I consider in detail the changes to the assets and liabilities (in the form of asset mix, claims reserving, reinsurance arrangements and pension liabilities) that will affect the UK GAAP and Solvency II balance sheets of the Transfer Companies. Then I consider the changes to the capital requirements of the Transfer Companies as a consequence of the Transfer and consider how easily they are met.

5.4 Consideration of the nature of assets available to meet policyholder obligations

In assessing the impact of the Transfer, I have considered the nature of assets within each Transfer Company before and after the Transfer occurs. The assets of each Transfer Company can be classified into four broad categories.

- Direct Equities – HCCI held a small amount of equities in 2016 but sold these during 2017, whereas TMKI do not directly hold any equities. Therefore there will be no direct equities both before and after the transfer for any of the Transfer Companies.

- Investments and cash – Financial investments held by the Transfer Companies are mainly held in bonds. TMKI and HCCI both hold a significant amount of bonds.

- Reinsurance share of provisions – Subject to the specific terms of the relevant reinsurance contracts, reinsurance assets have the capacity to absorb losses arising from the underlying reinsured insurance liabilities, thereby reducing financial risk. The nature and level of utilisation of such arrangements is in line with my expectations for the Transfer Companies.

- Other assets – Other balance sheet assets include collective investment vehicles, mortgages and loans, sundry assets arising in the normal course of business such as accounts receivable, accrued interest and rent and intercompany balances.

The table below shows each asset group as a percentage of the total assets for TMKI and HCCI as at 31 December 2016. It also shows the estimated percentages Post Transfer:

Nature of assets as % of UK GAAP balance sheet							
	Q4 2016		**Q3 2017**		**Q3 2017**		
	TMKI	**HCCI**	**TMKI Pre Transfer**	**HCCI Pre Transfer**	**TMKI Post Transfer**	**HCCI Post Transfer**	**TME**
Equities	0.0%	4.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Investments (excl. equities) and cash							
Bonds	29.2%	54.7%	26.7%	59.2%	33.1%	55.3%	17.8%
Cash	15.4%	6.5%	8.2%	6.9%	9.5%	6.6%	2.2%
Collective Investment vehicles	13.4%	1.6%	12.3%	2.6%	15.2%	2.7%	0.2%
Other	0.9%	0.0%	6.3%		7.8%	0.0%	0.0%
Reinsurance share of provisions	21.5%	18.2%	22.7%	17.4%	15.1%	15.8%	63.1%
Other assets	19.5%	14.8%	23.8%	13.9%	19.4%	19.6%	16.7%

There are no large changes in the nature of assets as a result of the transfer for TMKI and HCCI. TME's nature of assets is less diverse than that of TMKI and HCCI, but this is aligned with its smaller portfolio.

I do not identify any matter arising from balance sheet assets held by the Transfer Companies that would cause me to perform specific further additional analysis. I note that no change in the overall asset mix of the Transfer Companies is planned as a direct consequence of the Transfer. The same pool of assets will be available to pay claims across the transfer companies, so whilst TME will have a lot more reinsurance assets, the underlying investments are the same.

5.5 Valuation of insurance liabilities

I have considered the valuation of insurance liabilities included in each Transfer Company balance sheet. The process of estimating insurance liabilities is inherently uncertain due to unknown future events or circumstances and the effect these may have on the frequency and cost of claims. For example, future legal changes may increase the number of claims to which insurers are exposed, inflation may change the costs of remediation of insured events and new types of claim may emerge which are not currently anticipated. The calculation of insurance liabilities will continue to be calculated by the same team pre and post transfer.

In performing my analysis of the relative impact of the Transfer on different policyholder groups I have considered the appropriateness of the methods and assumptions used by the Transfer Companies to value their insurance liabilities.

TMKI and HCCI use various standard actuarial methods in estimating claims reserves. The main methods used are the Chain Ladder Method, the Bornhuetter-Ferguson Method and the Loss Ratio Method. The reserving process will continue on in its current format and will be completed by the same teams and staff following the transfer. To avoid confusion, HCCI will continue to reserve for the TME business transferred from HCCI and TMKI will continue to reserve for the TME business transferred from TMKI.

For Solvency II, each entity has to produce an economic balance sheet, for which the appropriate actuarial best estimate is used as the base point.

As the overall reserving philosophies of the Transfer Companies are the same, there will not be any impact on the security of the transferring policyholders with respect to reserving.

I have performed an analysis to satisfy myself that the insurance liabilities are consistent with my expectations for insurance business of this nature. This analysis involved:

- A review of both internal and (where available) external reserve reports on the business prepared by qualified actuaries;
- A review of the methods used to estimate reserves compared with industry best practice;
- A number of interviews with key personnel responsible for estimating the value of insurance liabilities within the actuarial and claims management functions, discussing the analyses performed and results of these analyses; and
- Consideration of the actual run-off profit or loss on prior underwriting years exhibited by each of the Transferors.

5.6 Consistency of insurance liability valuation

Whilst I have not conducted an in depth analysis of reserve adequacy, I have investigated the policies, methods and assumptions used to set the reserves for the various types of insurance liabilities within the Transferors. Specifically, I have considered the policies, methods and assumptions that are applied within each entity to result in a consistent reserve valuation for each Transferor and policyholder group. I am therefore comfortable that they are an appropriate basis on which to form my opinion of the position of each policyholder group before and after the Transfer.

Impact on the different policyholder groups

As the reserving for all TMKI and HCCI policyholders will continue to be carried out by the same actuarial teams, with the same processes around reserving philosophy and governance pre and post transfer, I do not consider there to be any change to the way policyholder liabilities will be quantified as a consequence of the Transfer. Therefore I see no material impact on any policyholder group from any changes in the provisioning process.

Impact on existing reinsurers

5.7 Outwards reinsurance arrangements

Reinsurance assets along with the liabilities associated with them will transfer under the Transfer with TME being added as a covered entity to the existing group reinsurance protections that don't automatically cover TME.

The Transfer has no further effect on the coverage provided by current or historic reinsurers, creating neither an increase nor decrease in the exposure of reinsurers.

Given the above, I identify no material adverse impact to any policyholders of the Transfer Companies from the Transfer due to reinsurance arrangements.

Pension Scheme Obligations

5.8 The majority of pension schemes for the Transfer Companies are defined contribution schemes rather than defined benefit schemes. There is no risk of an unexpected material increase in funding requirements or liabilities from this source.

However there are six TMKI employees, based in the Netherlands branch, who have defined benefit schemes. TMKI have confirmed that the scheme is well funded and there is no material risk of an increase in funding requirements. Therefore I conclude that there is no impact on policyholder security from the different pension schemes associated with the Transfer Companies, and therefore no impact as a result of the Transfer.

Consideration of capital and risk

5.9 Measures of capital

I have considered the value of each Transfer Company's net assets compared with the risk that each Transfer Company is exposed to by reference to the Standard Formula SCR for each company. This is the only public measure which is available for Transfer Companies and as such is a consistent comparison. I have reviewed the Standard Formula estimates as at 31 December 2016 and 30 September 2017 for TMKI, HCCI and TME for comparison purposes.

These estimates compare the value of each legal entity's economic resources with the Transfer Companies' estimates of the amount of capital required to ensure that policyholders are secure at the 99.5% confidence level under the Solvency II regime. The risks considered in these estimates include:

- The ultimate potential insurance liabilities;
- Potential losses from investments;
- Potential losses arising from the failure of third parties to which each legal entity has exposure; and
- Potential losses arising from operational risks.

HCCI and TMK both use the Standard Formula to set their SCR under Solvency II at present. Both of these Transfer Companies also make use of an internal model for Economic Capital and ORSA purposes.

The Standard Formula calculates the regulatory required capital based on the insurance risks within the 'average' insurance company, therefore it will not reflect the risk profile of any company perfectly.

The risk profiles of the Transfer Companies are not going to be perfectly captured through the use of the Standard Formula, but I believe that it appropriately demonstrates the relative change in policyholder security before and after the Transfer to support my opinion within this report, and furthermore does so consistently across the Transfer Companies.

I note that these estimates:

- Have been produced by suitably qualified individuals from within the Transfer Companies;
- Have been reviewed and agreed by the Boards of the Transfer Companies; and
- Are consistent with the estimates submitted to the PRA, where relevant.

Whilst I have not performed any detailed verification of the calculations performed by the Transfer Companies using the Standard Formula, I note that the results of these calculations have been audited as part of the audit of the Solvency and Financial Condition Report ('SFCR'). Therefore, I am comfortable relying on these calculations for my work.

I have also considered the methodology and key differences between the Standard Formula and the Transfer Companies' internal models, as this allows for additional insight into the capital requirements of the Transfer Companies.

As stated above, the TMKI Standard Formula and internal model derive similar results for TMKI.

HCCI Standard Formula and internal model derive different results, with the Standard Formula calculating a higher SCR.

In particular, the Standard Formula calculation of Insurance Risk is higher than for the internal model because of:

- Different approach to diversification between different lines of business
- Catastrophe Modelling is modelled differently in the Standard Formula

HCCI have had annual independent validation exercises carried out on their internal model. Any findings are escalated and addressed in the following development cycle. The conclusion from the most recent independent validation was that the internal model SCR is not inappropriate.

TMKI also undertook a review of their internal model by the Internal Model Validation Team. It was found that the Standard Formula SCR was 0.4% higher than the Internal Model SCR.

I have not performed a detailed verification of the calculations performed by the Transfer Companies. However, in order to satisfy myself that the estimates are reasonable, I have evaluated the stress tests on the areas I consider material to the Transfer Companies' assessment of available and required capital, or where other market participants have to my knowledge experienced deteriorations recently to which one or several of the Transfer Companies are exposed. These stresses are found in the ORSA and Stress and Scenario reports of the Transfer Companies.

In each case the available capital post Transfer more than meets the scenario tested under the SII return period. The Transfer companies also consider scenarios beyond the return period required under SII. Whilst this does not constitute a formal re-estimation of the capital required for each of these scenarios, the fact that each scenario is contained within the capital amounts estimated under the Standard Formula approach reassures me that these estimates are capturing and covering the appropriate risks. I discuss the results of this analysis in section 6 below.

Impact of Transfer on capital available to policyholders

5.10 Change in Solvency II capital cover ratios

The table below summarises the Solvency II balance sheet assets and liabilities for the Transfer Companies before and after the Transfer as shown in section 4.6.

As above, please note that net SII Technical Provisions refers to Technical Provisions net of reinsurance. Reinsurance assets are included within total assets. The most important measure to consider is how the eligible own funds compare to the regulatory capital requirements (i.e. the 'SCR') and I show this for HCCI and TMKI.

I consider the impact of the Transfer in terms of the ratio of available capital to the capital requirement ('Capital Cover Ratio') calculated by reference to the Standard Formula as at 31 December 2016 and 30 September 2017 in the tables below:

	As At Q4 2016 $1=£0.8128			As At Q3 2017 $1=£0.7454						
Solvency II Balance Sheet (000's)	**TMKI Pre Transfer (£)**	**TMKI Pre Transfer ($)**	**HCCI Pre Transfer ($)**	**TMKI Pre Transfer (£)**	**TMKI Pre Transfer ($)**	**HCCI Pre Transfer ($) Q4 2017**	**TMKI Post Transfer (£)**	**TMKI Post Transfer ($)**	**HCCI Post Transfer ($) Q4 2017**	**TME ($) Q4 2017**
Own Funds net of deductions due to participation in investment	124,917	153,685	621,946	153,602	206,360	690,077	153,820	206,366	576,554	113,524
Total Assets	444,111	546,389	1,584,268	508,756	682,656	1,679,421	430,876	578,063	1,547,259	768,643
Insurance Liabilities	289,729	356,454	787,336	344,648	462,379	827,575	285,314	382,778	713,299	559,387
Other liabilities	54,465	67,008	174,985	72,453	97,025	161,768	53,688	72,027	143,883	95,733
Total liabilities	344,194	423,462	962,321	417,101	559,404	989,344	339,002	454,805	857,182	655,119
SCR	100,333	123,440	321,900	100,333	134,607	302,200	100,333	134,607	283,800	56,500
Capital Cover Ratio	125%	125%	193%	153%	153%	228%	153%	153%	203%	201%

It has been confirmed to me that there is practically no change to the TMKI projected SCR after the transfer due to the TMKI transferring business being immediately reinsured back to TMKI. The impact of TMKI's transferring business on TME's SCR is limited to a small amount of counterparty default risk which is shown in TME's balance sheet not TMKI's.

I have considered the SCR for all companies, and the view of the Transfer Companies on how the combined SCR may have looked if the Transfer had taken place for 31 December 2016 and 30 September 2017.

All Transfer companies hold capital significantly above their SCR**.** The Capital Cover Ratio for TMKI remains the same pre and post transfer. HCCI's Ratio falls from 228% to 203% as a result of the transfer, but remains significantly above the SCR. TME holds capital at 201% of the SCR.

Guarantees/risk sharing arrangements

5.11 As discussed in section 4.12, there will be no adverse change to the guarantees that HCCI or TMKI currently receive as part of the Transfer. Transferring policyholders from TMKI will have a parental guarantee from Tokio Marine HCC Group. Therefore, I identify no material adverse effect on the HCCI or TMKI policyholders as a result of the Transfer. Any existing TME policyholders at the effective date of the Transfer will not be moving and will see no change in guarantees afforded to them as a result of the Transfer.

Treating Customers Fairly

Claims and policy administration

5.12 As discussed in section 4.17, the claims service provided both before and after the transfer will continue to provide the same service to the same standard and with the same staff after policies transfer out of HCCI and TMKI. In addition to this, the First Notification of Loss phone number (and address) on the original policy documents is unchanged since it was introduced. This number is still available, is used for the reporting of new claims and will remain so after the Transfer. Any existing unsettled claims when the Transfer becomes effective will continue to be handled by the same claims team.

Therefore there will be no anticipated impact on HCCI, TMKI or TME policyholders with regard to claims administration.

Conduct risk

As noted in section 4.21, 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. HCCII 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

5.13 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 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.

As the Transferring business will continue to be reserved by its legacy actuary teams on behalf of TME, there will be a new systems feed from TMKI to TME into the HCCI systems that TME uses. The data transferred here though will only be to update reserving positions within the financial reporting systems, and should not therefore require the transmission of any personal or sensitive information. I therefore conclude that the transfer of data will not put sensitive policyholder data or information at increased risk.

The impact of Brexit

5.14 As discussed in section 4.22**,** 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

5.15 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. Given the high capital cover ratios of the Transfer Companies the probability of any of them becoming insolvent in the short term is remote, so even if there were to be a situation in which the FSCS did not continue for transferring policyholders then the impact on transferring policyholders of losing this protection should not be material to them. 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.

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.

6. Methodology, stress and scenario analysis

Overview

6.1 In performing my analysis of the impact of the proposed Transfer, I have considered estimates prepared by the Transfer Companies of the maximum losses each of the Transfer Companies would face under a number of stress scenarios. In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have performed further analysis in three main areas:

- Modelling approach – I have considered the methods used by the Transfer Companies to calculate the estimate of insured losses at differing levels of confidence, allowing me to have confidence that the results of the model prepared by the Transfer Companies are based on appropriate assumptions and capture the relevant aspects of each Transfer Company's risk.
- Analysis of sensitivity of the model estimates to alternative assumptions – I have considered how sensitive my opinion is to variations in the underlying assumptions used by the Transfer Companies, and whether the reasoning behind my opinion would be different using alternative assumptions.
- Stress test analysis – I have considered the impact of a set of specific severe adverse events on each of the Transfer Companies, allowing me to gain comfort at a high level that the economic loss estimates used in my analysis are meaningful when compared with real world loss assumptions.

Loss modelling approach

6.2 Modelling approach

In finding the most suitable metric for assessing and comparing the capital required for each entity, I had to consider the methods that each entity used to calculate its capital required.

The Transferors both use the Standard Formula to calculate their respective SCR (the required regulatory capital amount) and use an (unapproved) internal model internally to manage their respective businesses.

Given both of the Transferors have calculated their capital required using the Standard Formula guidelines, and this is a common metric, I have used as my consideration of capital requirements the Standard Formula calculation for each entity.

A broad spectrum of risks is considered within this Standard Formula calculation including:

- Risk arising from insurance business, for example, the risk of losses from natural catastrophes or deterioration in the valuation of insurance liabilities.
- Market risk, for example, the risk that investment returns are not as high as anticipated.
- Counterparty default risk, for example, the risk that a reinsurance counterparty becomes insolvent and cannot honour its obligations.
- Operational risk, for example, the risk that there is a failure in underwriting controls.

The range of risks considered by each Transfer Company is prescribed by the Solvency II guidelines and is intended to reflect the inherent risk within the activities of each entity. For each entity, the results require approval from the respective board.

I consider the processes which have been adopted in calculating this Standard Formula calculation to be consistent with industry practice for insurance businesses of the size and complexity of HCCI and TMKI. I am therefore comfortable that these processes are appropriate in nature and scope.

6.3 Findings of review of the modelling approach

I have discussed the Standard Formula approach with the Transfer Companies' management and have been provided with a range of related material including required capital estimates using alternative methods and descriptions of the methodology used. The Standard Formula calculations at 31 December 2016 have been subject to audit by HCCI and TMKI's external auditors. The calculation at 30 September 2017 is unaudited.

The Transfer Companies have applied standard actuarial methods to generate their estimates of potential losses for each entity. The calculations of required capital that have been provided to me as at 31 December 2016 have been subject to full internal review and governance processes, and are audited.

The most significant risks contributing to HCCI and TMKI's required capital relate to the underlying general insurance business and associated uncertainties relating to the value of existing insurance liabilities and potential for adverse outcomes compared to that expected in the reserves currently set.

The relative contribution of different risk types to the required capital calculations for TMKI and HCCI are consistent with my understanding of the underlying business and in line with my expectations.

Whilst I have not performed a detailed validation of model results, the assumptions, methodology and outputs from the model are consistent with my expectations for business of this nature and I am satisfied that they are informative as to the change in risk which could occur following the Transfer compared with the position assuming no Transfer occurs.

Stress test analysis

6.4 I have considered a variety of severe adverse scenarios that could have a material impact on the financial security of policyholders. I have performed this analysis in order to:

- Quantify the impact of a stress event on the capital positions of the Transfer Companies and hence policyholder security; and

- Satisfy myself that the required capital calculations produced by the respective entities on the basis of their Solvency II Standard Formula calculations, together with the resulting capital cover ratios, are reasonable when compared with the impact of a combination of specific adverse events.

The levels of capital required from the Standard Formula calculation prepared by the Transfer Companies are intended to represent the full range of realistic economic risks that each Transfer Company could experience, and represent a more complete consideration of business risk than an analysis of specific stress events. However, such calculations are based on multiple modelling assumptions which rely on expert judgement. By contrast my consideration of specific adverse stresses provides qualitative information on the security of policyholders in a single defined scenario. Such specific severe adverse scenario testing does not rely on expert judgements regarding the frequency and range of uncertainty, and provides an alternative source of information from which I can gain insight into the levels of security of policyholders.

6.5 I have considered a variety of potential severe adverse circumstances or extreme events that could affect the Transfer Companies, all of which represent stresses that fall outside the normal course of business. In selecting the scenarios to model, I have considered:

- Current developments occurring in the insurance markets in which each Transfer Company operates.

- The typical risks faced by an insurance business.

- My overall understanding of each Transferor including its portfolio mix, structure and business model.

- The key risks identified by each Transferor in its estimates of required economic capital from its ORSA.

- The scenarios identified by each Transferor as part of its normal risk management processes.

I have considered each stress by assuming the outcomes of what might happen given each scenario, looking at how this would affect the entities both individually and post Transfer based on their business and coverage, and consequently how this would affect each of their capital. I have then compared the lower capital position that would be in effect should each scenario (in isolation) happen to the capital requirements of each Transfer Company.

As discussed in sections 3.17 and 5.9, the capital requirements under the Solvency II regime are based on policyholders being secure at the 99.5% confidence level. For an even more rigorous check on the level of security, I further consider the capital levels against a capital requirement based on a 99.9% confidence level.

Whilst these stresses do not represent an exhaustive list of all adverse events that could impact the Transfer Companies, they include those risks I consider most material and relevant to my analysis. I note that the Transfer Companies perform such stress testing as part of their business as usual risk management processes as expected under Solvency II. I have considered the stress tests performed by the Transfer Companies. Certain stress tests are common from HCCI and TMKI which are shown below.

6.6 I have considered where these stress tests may cause an aggregation of risk.

European Windstorms are a source of risk for both HCCI and TMKI. As a significant portion of the European business is transferring to TME, so there is a potential for an aggregation of risk. I have analysed a number of stress tests and reserves stress tests, designed to be at a level that will break the company. The results of these stress tests are not available in this report as they are of a commercially sensitive nature, however I have included my conclusion below.

There is an aggregation of risk in respect of EU windstorms to TME. This is due to the nature of the business being transferred consisting of European business. TME will have a stop loss reinsurance arrangement with HCCI in place to protect TME from this aggregated risk. The stop loss will cover TME against Property treaty lines for all regions and perils, not just European windstorms.

The Transfer Companies have chosen events that are modelled far in their respective distributions. Most notably the HCCI selected EU Windstorm events are modelled beyond a 1000+ year return period each and in an extreme scenario they have assumed two of these 1000+ year events happening in the same year. Therefore, I consider these scenarios to have very remote probabilities.

Both HCCI and TME will have a parental guarantee from Tokio Marine HCC Group. This further mitigates the potential net impact of extreme tail events.

Both HCCI and TMKI are at risk from economic events and therefore I have considered stress tests carried out by the Transfer Companies in respect of economic events.

Under each of the economic event stress tests analysed, all entities have enough available assets to cover the resulting financial impact.

6.7 Findings of stress test analysis

TMKI and HCCI have considered this potential for EU windstorms to cause an aggregation of risk and have allowed for this by putting necessary reinsurance arrangements in place; TMKI transferring business will be reinsured back to TMKI and HCCI will put a special stop loss reinsurance arrangement in place for Property treaty lines so that the EU windstorm risk is reinsured back to HCCI and is also covered by the parental guarantee in place. HCCI has a parental guarantee (from parent Tokio Marine HCC Group) which will continue after the transfer. TME will also have a parental guarantee from the Tokio Marine HCC Group. Due to the parent company's substantial balance sheet and maintained excess capital it can be seen that transferring policyholders are protected in the event of severe large losses.

After the Transfer, HCCI, TMKI and TME will continue to have a surplus of assets over liabilities in any single 1 in 200 year scenario.

Having analysed the results of the stress tests outlined above, I find that only those extreme scenarios well in excess of the Solvency II requirement of 1 in 200 year events would result in the Transfer Companies falling short of their capital requirements.

7. Summary of findings

Summary of changes in circumstances of non-transferring HCCI policyholders

7.1 Based on the analysis that I have carried out in sections 5 and 6 of this report I note that:

a) The policies remain with HCCI after the Transfer;

b) The capital coverage of HCCI is 228% before the Transfer and 203% after the Transfer and hence is still well covered;

c) The claims handling does not materially change as the existing claims teams will continue to service claims on these policies;

d) The ability to make new claims, the protection of policyholder data, and any changes in the overall treatment of customers as a result of the Transfer do not have any material impact on the non-transferring HCCI policyholders; and

e) The potential impact of Brexit and its consequences does not change the entitlements of any non-transferring HCCI policyholders as a result of the Transfer.

As a result I consider there to be no material adverse impact on non-transferring HCCI policyholders as a consequence of the Transfer.

Summary of changes in circumstances of non-transferring TMKI policyholders

7.2 Based on the analysis that I have carried out in sections 5 and 6 of this report I note that:

a) The policies remain with TMKI after the Transfer;

b) The capital coverage of TMKI is 153% before the Transfer and 153% after the Transfer and hence is still well covered;

c) The claims handling does not materially change as the existing claims teams will continue to service claims on these policies;

d) The ability to make new claims, the protection of policyholder data, and any changes in the overall treatment of customers as a result of the Transfer do not have any material impact on the non-transferring TMKI policyholders; and

e) The potential impact of Brexit and its consequences does not change the entitlements of any non-transferring TMKI policyholders as a result of the Transfer.

As a result I consider there to be no material adverse impact on non-transferring TMKI policyholders as a consequence of the Transfer.

Summary of changes in circumstances of transferring HCCI policyholders

7.3 Based on the analysis that I have carried out in sections 5 and 6 of this report I note that:

a) The reserving policy and process is the same after the Transfer as it was before;

b) The capital coverage of TME is 201% compared to a capital coverage of 228% for HCCI pre-Transfer**.** The capital coverage is slightly lowered for transferring policyholders however is still comfortably over 100% therefore I do not consider this to have a material adverse effect;

c) There are no changes to the claims handling, ability to make new claims, protection of policyholder data, or any changes in the overall treatment of customers as a result of the Transfer;

d) The potential impact of Brexit and its consequences are improved for the transferring HCCI policyholders.

e) For policyholders in grouping 3a, who had access to the FSCS before the transfer, they will continue to have access to the FSCS as before.

f) For policyholders in grouping 3b, who did not have access to the FCSC before the transfer, they will continue to not have access to the FSCS as before and therefore are no worse off.

g) After the Transfer the transferring policyholders will have access to an Insurance Ombudsman which is run by the Association of Insurance Companies ('ACA') and the Luxembourgish Consumers Association ('ULC').

As a result I consider there to be a positive impact on transferring HCCI policyholders as a consequence of the Transfer due to the continued strong capital coverage post transfer and the risk that claims could not be paid after Brexit, through loss of passporting rights, being removed.

Summary of changes in circumstances of transferring TMKI policyholders

7.4 Based on the analysis that I have carried out in sections 5 and 6 of this report I note that:

a) The reserving policy and process is the same after the Transfer as it was before;

b) The capital coverage of TME is 201% compared to a capital coverage of 153% for TMKI pre-transfer. The capital coverage increases for transferring policyholders plus the policyholders will benefit from an improved credit rating and greater diversification than previously; therefore I consider this to have a positive effect;

c) There are no changes to the claims handling, ability to make new claims, protection of policyholder data, or any changes in the overall treatment of customers as a result of the Transfer;

d) The potential impact of Brexit and its consequences are improved for the transferring TMKI policyholders

e) For policyholders in grouping 4a, who had access to the FSCS before the transfer, they will continue to have access to the FSCS as before.

f) For policyholders in grouping 4b, who did not have access to the FCSC before the transfer, they will continue to not have access to the FSCS as before and therefore are no worse off.

g) After the Transfer the transferring policyholders will have access to an Insurance Ombudsman which is run by the Association of Insurance Companies ('ACA') and the Luxembourgish Consumers Association ('ULC').

As a result I consider there to be a positive impact on transferring TMKI policyholders as a consequence of the Transfer due to the strong capital coverage post transfer and the risk that claims could not be paid after Brexit, through loss of passporting rights, being removed.

Summary of changes in circumstances of existing TME policyholders

7.5 If TME writes policies before the Transfer such policyholders are considered to be existing TME policyholders. I note that:

a) The reserving policy and process is the same after the Transfer as it was before;

b) The capital coverage of TME is 201%.

c) There are no changes to the claims handling, ability to make new claims, protection of policyholder data, or any changes in the overall treatment of customers as a result of the Transfer;

d) The potential impacts of Brexit remain the same for existing TME policyholders before and after the transfer.

As a result I consider there to be no material adverse impact on existing TME policyholders as a consequence of the Transfer.

Appendix 1 Curriculum Vitae of the Independent Expert

Philip Tippin is a non-life actuarial partner in KPMG.

Philip Tippin has been an actuarial services partner since 2004. He joined in 2001 and has led KPMG's general insurance actuarial business for much of his time with the firm. He has worked on a number of previous Part VII transactions over this period. Philip qualified as a Fellow of the Institute of Actuaries in 1998 with Watson Wyatt, having specialised in general insurance actuarial work since the start of his career.

Prior to joining KPMG Philip also worked as a consultant with Deloitte, and spent several years as a syndicate actuary in the Lloyd's Market with Venton (latterly Alleghany) Underwriting.

Experience

Philip has a wide range of experience in finance, insurance and reinsurance, covering both retail and wholesale markets, as well as having performed engagements looking at financial guarantee products. He has assisted clients in reserving, pricing, risk management, underwriting control, capital management and strategic consulting projects. His experience includes substantial exposure to UK and US law and regulation as they apply to insurance. Examples of recent assignments include:

- Acting as Independent Expert in general insurance Part VII business transfers.
- Undertaking the formal role of Scheme Actuary for a large number of Schemes of Arrangement, for both insolvent and solvent companies.
- Negotiation of commutations with policyholders and cedants on behalf of businesses in run-off.
- Expert witness appointment in the United States, covering reinsurance, reserving and pricing of specialist products, providing advice through the lifecycle of the case.
- Acting as independent expert for complex liability valuation determinations.
- Estimation of claim emergence and quantification of liabilities from environmental disasters in the United States.
- Gap analyses and development of implementation plans for Solvency II for large insurance groups.
- Review of credit risk liability models.
- Capital model design and review.
- Providing actuarial due diligence reporting for a number of major London Market acquisitions.
- Strategic reviews of business models for insurance risk management for providers and buyers of insurance.
- Providing statements of actuarial opinion for Lloyd's syndicates, including provision of opinions for US trust funds.
- Technical pricing of retail and commercial insurance products.
- Providing support to the audit of major UK and international insurance groups.

Professional & Educational

Philip is a Fellow of the Institute and Faculty of Actuaries (FIA). He holds a Practising Certificate to act as a Syndicate Actuary at Lloyd's, and has previously held a similar certificate to act for insurance and reinsurance entities in Ireland. He acted as an examiner and senior examiner for the general insurance papers of the Institute and Faculty of Actuaries exams for six years until 2005.

He holds an MA in Mathematics and Philosophy from the University of Oxford.

Appendix 2 Extract from Letter of Engagement

Scope of the Independent Expert's work

My role as Independent Expert will be to consider and to report to the Court on the proposed Transfer from the perspectives of the policyholders of the Transferor and Transferee, and to give a reasoned opinion on the likely effects of the Transfer on the policyholders of the Transferor and Transferee including whether any of their interests could be in any way (either directly or indirectly) adversely affected by any of the Transfer. Under the regulators' guidance, the Report must comply "with the applicable rules on expert evidence". My understanding therefore is that the PRA expects an independent expert to prepare a report in accordance with Part 35 of the Civil Procedure Rules 1998 ('CPR'), the relevant Practice Direction and the protocol for the Instruction of Experts to give evidence in Civil Claims, to the extent relevant ('the Requirements'). I will therefore conduct my work as if the Requirements apply. In particular, I will owe an overriding duty to the Court to assist the Court and to give the Court independent expert evidence on the Transfer.

For each Transfer, I expect that my work will include the following tasks in order for me to form my opinion:

- reviewing existing company documentation, as set out in Appendix 1 to this letter;
- reviewing the documentation for the Scheme and, if necessary, suggesting amended drafting in order to eliminate any concerns;
- If a Scheme is required in Jersey, Isle of Man or in any other jurisdiction, produce Deliverables which comply with the requirements of any such additional Scheme;
- reviewing the Transfer, considering the effect on policyholders of the Transferor and Transferee, covering their contractual rights, benefit security, and benefit expectations;
- reviewing any changes to reinsurance arrangements in connection with the Transfer;
- reviewing the effects of the Transfer on the risks and policyholders remaining within the Transferor and the resources of that company to meet those risks;
- reviewing the effects of the Transfer on the risks within both Transferee and the resources of each entity to meet those risks;
- reviewing comparative solvency levels before and after the proposed transfer;
- liaising and raising issues and questions as necessary with the appropriate persons at the Transferor and Transferee;
- liaising and raising issues and questions as necessary with your advisers, including tax and legal advisers;
- considering any potential competition issues arising in connection with the Transfer (as expected by the FCA);
- Such other tasks as you, I or the PRA and/or FCA consider reasonably necessary for the proper discharge of my role as independent expert.

Appendix 3 Letters of Representation

TOKIO MARINE
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Tokio Marine Kiln
Insurance Limited
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United Kingdom
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www.tokiomarinekiln.com

Philip Tippin
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

9 July 2018

Dear Mr Tippin,

Independent Expert Appointment – Part VII Transfer

I, James Dover, am Group Chief Financial Officer of Tokio Marine Kiln Insurance Limited (TMKI). This letter relates to the proposed transfer of the European insurance business currently carried on by TMKI and HCCI International Insurance Company PLC (HCCI) into a newly established entity Tokio Marine Europe SA (TME) under Part VII of the UK Financial Services and Markets Act 2000 (the 'Transfer'). I have been authorised by the board of directors of TMKI to give the representations set out in this letter on behalf of TMKI, which are given to the extent that TMKI exercises control over the insurance business which is the subject of the Transfer both before and after the Transfer come into effect. In this capacity I have reviewed the final version of the report produced by you as the Independent Expert ('the Report').

In respect of the Transfer, I can confirm that:

1. The data and information provided to you as Independent Expert was prepared by PRA approved persons or other members of the senior management of TMKI or responsible senior professionals from TMKI's advisors.

2. To the best of my knowledge and belief, all the information that is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Transfer (including but not limited to material discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties) in respect of TMKI and its policyholders has been provided to you.

3. To the best of my knowledge and belief, the Report accurately and fairly reflects my understanding of the details of the proposed Transfer and the facts relied upon in the Report in respect of TMKI and its policyholders are true and accurate, and that there are no material inaccuracies or omissions in the description of TMKI's business and practices (including details of specific contracts or claims) or in any statements attributed directly or indirectly to TMKI.

4. I will ensure that the Independent Expert is kept apprised of all matters and issues, up to the date of the Court hearings in respect of the Transfer, which, in my opinion, may be relevant to the Independent Expert in opining on the proposed Transfer. These matters include, but are not limited

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to, Court documents and supporting materials, full details of any changes between draft versions previously provided to me and final versions of these documents and full details of any differences between the data and information in respect of TMKI and its policyholders underlying such draft and final documents.

5. In particular, the facts stated below are true and accurate to the best of my knowledge and belief:
   - It is not planned that there will be a distribution of capital or increase in liability or risk exposure as a consequence of the Transfer that would not have occurred were the Transfers not to proceed;
   - The transfer is expected to be broadly tax neutral and no significant VAT liabilities will be realised by TMKI as a result of the Transfer;
   - The financial position as stated in the audited accounts for the year ended 31 December 2016 gives a true and fair view of TMKI's affairs at that date;
   - Other financial projections provided by TMKI that you have used to prepare the Report have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
   - TMKI will continue to operate and have no current intentions to cease underwriting or carry out a further restructuring of their business as a consequence of the Transfer;
   - TMKI will continue to include TME as a named party in all outwards reinsurance contracts; and
   - Any data transferred to TME from TMKI will be governed by a GDPR compliant data transfer agreement.

Yours sincerely,

James Dover
Group Chief Financial Officer

TOKIO MARINE
HCC

Tokio Marine HCC
1 Aldgate
London EC3N 1RE, United Kingdom
Tel: +44 (0)20 7848 1100

Philip Tippin

KPMG LLP

15 Canada Square

Canary Wharf

London

E14 5GL

11th July 2018

Dear Mr Tippin,

Independent Expert Appointment – Part VII Transfer

I, Nicholas Hutton-Penman, am Chief Operating Officer of HCC International Insurance Company PLC (HCCI). This letter relates to the proposed transfer of the European insurance business currently carried on by HCCI and Tokio Marine Kiln Insurance Limited (TMKI) into a newly established entity Tokio Marine Europe SA (TME) under Part VII of the UK Financial Services and Markets Act 2000 (the 'Transfer'). I have been authorised by the board of directors of HCCI to give the representations set out in this letter on behalf of HCCI, which are given to the extent that HCCI exercises control over the insurance business which is the subject of the Transfer both before and after the Transfer come into effect. In this capacity I have reviewed the final version of the report produced by you as the Independent Expert ('the Report').

In respect of the Transfer, I can confirm that:

1. The data and information provided to you as Independent Expert was prepared by PRA approved persons or other members of the senior management of HCCI or responsible senior professionals from HCCI's advisors.

2. To the best of my knowledge and belief, all the information that is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Transfer (including but not limited to material discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties) in respect of HCCI and its policyholders has been provided to you.

3. To the best of my knowledge and belief, the Report accurately and fairly reflects my understanding of the details of the proposed Transfer and the facts relied upon in the Report in respect of HCCI and its policyholders are true and accurate, and that there are

no material inaccuracies or omissions in the description of HCCI's business and practices (including details of specific contracts or claims) or in any statements attributed directly or indirectly to HCCI.

4. I will ensure that the Independent Expert is kept apprised of all matters and issues, up to the date of the Court hearings in respect of the Transfer, which, in my opinion, may be relevant to the Independent Expert in opining on the proposed Transfer. These matters include, but are not limited to, Court documents and supporting materials, full details of any changes between draft versions previously provided to me and final versions of these documents and full details of any differences between the data and information in respect of HCCI and its policyholders underlying such draft and final documents.

5. In particular, the facts stated below are true and accurate to the best of my knowledge and belief:
   - TME's capitalisation will come from HCCI's excess capital, this will be transferred before the Effective Date of this Transfer. It is not planned that there will be a further distribution of capital or increase in liability or risk exposure as a consequence of the Transfer that would not have occurred were the Transfers not to proceed;
   - The transfer is expected to be broadly tax neutral and no significant VAT liabilities will be realised by HCCI as a result of the transfer;
   - The financial position as stated in the audited accounts for the year ended 31 December 2016 gives a true and fair view of HCCI's affairs at that date;
   - Other financial projections provided by HCCI that you have used to prepare the Report have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
   - HCCI will continue to operate and have no current intentions to cease underwriting or carry out a further restructuring of their business as a consequence of the Transfer;
   - TME will have a parental guarantee from Tokio Marine HCC Group;
   - HCCI will continue to include TME as a named party in all outwards reinsurance contracts; and
   - Any data transferred to TME from HCCI will be governed by a GDPR compliant data transfer agreement.

Yours sincerely

Nicholas Hutton-Penman

Appendix 4 List of Information provided

Financial Information

TME business plan containing forecast for 3 years of UK GAAP and SII balance sheets

TMHCC 2016 Q4 Internal Reserving Report

HCCI 2016 Internal Model Validation Report to the Board

HCCI PRA Insurance Returns for 2013/ 2014/2015

Independent review of HCCI Internal Model- SCR Validation Report

Number of open claims, and policy counts by Line of Business for HCCI

HCCI ORSA Report 2016

HCCI Financial Statements 2014/2015/2016

HCCI Stat Accounts 2014/2015/2016

HCCI SII balance sheet 2017 split by the amount of the balance sheet transferring to TME

HCCI UKGAAP balance sheet 2017 split by the amount of the balance sheet transferring to TME

TMKI ORSA Report 2017

Statement of Actuarial Opinion report by PwC 2016

TMKI 2016 annual NST validation

TMKI SII and UKGAAP balance sheet up end of September 2017

TMKI Annual Report and Financial Statements for 2014/2015/2016

Calculation of SF SCR for 2016 for TMKI post Brexit

Calculation of the SF SCR for 2016 for TMKI

TMKI Solvency and Financial Condition Report 2016

Letter of credit from Mizuho Bank to TMKI

PRA Approval of Ancillary Own funds for TMKI

Dividend Policy for TM Group

Structure and Company Information

TMK Group corporate structure chart

A list of TMKI Executive Board Members

TME Legal Structure Chart

HCCI Group Entities Chart

HCCI International Platforms descriptions

TMKI Dataflow summary

Pre and Post Brexit Legal Structure charts for TME, HCCI and TMKI

Enterprise Reporting System plan which sets out the data warehouse that will be used by TME, HCCI and TMKI

IT Infrastructure overview used by HCCI and proposed to be used by TME

TME Governance Map

TME Business Distribution by Line of Business

Total value of TMKI's defined benefit pension scheme fund

Intra group data transfer details

Significant Risk Sharing Arrangements and Material Counterparties

HCCI Reinsurance Strategy 2017

HCCI Reinsurance Purchasing Plan 2017

TME/TMK/TMNF Japanese Business Reinsurance framework

TME Outsourcing Arrangements

TMKI Facultative Obligatory Cover for DAMP

TMKI Reinsurance Resume 2017

TMKI's Parental Guarantee

Details of TMKI booked GAAP reserves, Outwards reinsurance arrangements and number of policies and policyholders by location and Line of Business

Example of reinsurance contracts applicable to HCCI

TME's Multi-Line Quota Share Reinsurance contract with TMKI for new business

TME's Quota Share Reinsurance contract with TMKI for ongoing business

Scheme Information

Board Meeting notes about Brexit Progress- June 2017

Board Meeting notes about Brexit Progress- September 2017

HCCI/TMKI/TME draft transfer framework agreement

HCCI/TMKI/TME draft transfer scheme agreement

Part VII transfer timetable

Details of HCCI transferring business lines, locations where they have exercised passporting rights, number of direct insurance and reinsurance policies transferring by EEA State, net assets transferring to TME from HCCI, SF SCR for HCCI, details of parental guarantee with Tokio Marine HCC Group, details of licences that have been requested for TME, details of transferring IP/IT.

HCC Group and TME Investment Guidelines

High level tax consideration document for setting up TME in France produced by Ernst & Young

TMKI EAA business that is considered for Part VII Transfer by LOB and branch location

Order for Directions and the Final Order intended for the High Court

TMKI and HCCI to TME Excluded Reinsurance Policies Agreement

HCCI and TMKI Policyholder, Broker, Coverholder, and Outwards Reinsurer Letters of notice

Draft Legal Notice of the transfer

Summary of the Scheme for EEA Regulators and CAA.

TMKI, HCCI and TME First Witness Statements

Capital and Risk Management

TMKI Regular Supervisory Report 2016

TMKI Actuarial Reserving Policy, Process and Governance Report 2017

TMKI Audit committee's review of Reserving estimates- 2017

Statement from TMKI Chief Actuary confirming that there will be no material change to the projected SCR for TMKI post transfer

HCCI Strategic Risk Metrics document

HCCI Group Risk Strategy and Risk Management Policy

HCCI Regular Supervisory Report

HCCI Internal model validation of SF SCR by internal model validation team 2017

TMK Stress and Scenario Paper 2017

Appendix 5 Glossary of terms and definitions

Adverse impact – A negative change of any size.

Asset – Generally, any item of property whether tangible or intangible, that has financial or monetary value.

Association of Insurance Companies (ACA) - The professional association of insurers and reinsurers established in Luxembourg.

Capital – Defined as total assets less total liabilities as measured using either an economic method of valuation, PRA mandated valuation rules or Statutory Accounting principles, as indicated by the accompanying text.

Capital Cover – Ratio of available capital to the capital requirement.

Claims Reserves – Funds to be set aside for the future payment of incurred claims that have not yet been settled, and hence are classified as liabilities on the company's balance sheet.

Commissariat aux Assurances ('CAA') - The Luxembourg Regulator which TME will be regulated by.

Communication Pack – The pack that will be sent to policyholders and other stakeholders as set out in Appendix 7 to inform them of the proposed Transfer, comprised of a cover letter and accompanying information leaflets, including a summary of this Report.

Competent Authority - Any person or organisation that has the legally delegated or invested authority, capacity, or power to perform a designated function.

The Court – The High Court of Justice of England and Wales.

CPR – Civil Procedure Rules 1998.

Credit risk - The risk of financial loss resulting from changes in the value of assets due to actual default or perception of the risk of default in the future. The term is commonly used to describe the risk that the market value of a financial investment such as a bond will fall due to an increase in the perceived likelihood of default, for example, due to an opinion issued by a credit rating agency, but would also cover the risk of non-payment of reinsurance recoveries or broker balances.

Designated Account Management Program (DAMP) - DAMP is primarily Japanese corporate business, written by TMKI in Europe which is then largely ceded back to TMNF.

Economic basis – A method of measuring the value of assets and liabilities using market consistent valuation techniques including reflecting the time value of money on cash flows occurring in the future, and excluding 'prudent' valuation margins included in estimates of the valuation of insurance liabilities. In this report the word 'economic' is used to represent the closest representation to the real value of the assets or liabilities in question, disregarding the effect of accounting or regulatory measurement rules.

Economic capital – Capital calculated using an economic basis.

Effective Date – The date and time on which the Transfer takes effect.

The EU – The European Union

FIA – Fellow of the Institute and Faculty of Actuaries.

Financial Conduct Authority ('FCA') – The Financial Services Authority was reorganised into two separate regulatory agencies during 2013. The successor organisations are the Prudential Regulation Authority and the Financial Conduct Authority. The Financial Conduct Authority focuses on the regulation of conduct by retail and wholesale financial services firms.

The Financial Ombudsman Service ('FOS') – An independent public body that aims to resolve disputes between individuals and UK financial services companies. It may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS.

The Financial Services Compensation Scheme ('FSCS') – A statutory scheme funded by members of the UK financial services industry. It provides compensation to individual holders of policies issued by UK insurers in the UK or another EEA state who are eligible for compensation under the FSCS in the event of the insurer's default.

The Financial Services and Markets Act 2000 ('FSMA') – An Act where Part VII of which governs the transfers of insurance business between insurance undertakings.

Freedom of Services – The freedom to operate and offer services in other EU member countries without having to have an office located there.

Gross – Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting of reinsurance assets.

HCC International Insurance Company PLC ('HCCI') - A UK-regulated non-life insurance and Reinsurance Company, incorporated in England and Wales, which is part of the Tokio Marine Group and is one of the Transfer Companies in the Part VII Transfer. HCCI is a subsidiary of HCC Insurance Holdings, Inc (DE, US), which was acquired by TMNF in 2015.

Holding company – A holding company is a company established for the sole or main purpose of holding shares in subsidiary companies.

IM SCR - the Solvency Capital Requirement calculated from an internally developed capital model.

Independent Expert – The person appointed to report on the terms of the Transfer pursuant to section 109 of FSMA, or any successor appointed to report on this and whose appointment is approved by the PRA. The Independent Expert's primary duty lies with the Court, and the opinions of the expert are developed independently of the sponsoring Transfer Companies and the PRA.

Insolvency – The condition of having more liabilities than assets which might be available to pay them, even if the assets were mortgaged or sold.

Insurance reserves – The estimated value of future claims costs recorded in the balance sheet of an insurance company, also referred to as the 'value of insurance liabilities'.

Internal model- An internally developed capital model used to model the specific risks that the company is exposed to.

Internal Model Validation Team- An independent team within TMKI who are responsible for annually assessing the appropriateness of the internal model used within TMKI. Results and recommendations are reported to the Board.

Jurisdiction – The concept that a court or government authority or regulator may exercise control over a person or property because of the location of the property, the activities of a person within a geographic area, or a person's request for assistance from that authority, thereby voluntarily subjecting themselves to jurisdiction.

KPMG – KPMG LLP, a UK limited liability partnership, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

Liability – A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.

LUX GAAP- Accounting reporting standard used in Luxembourg.

Luxembourg Consumers Association (ULC) - A non-profit organisation which aims to protect consumers. They also represent consumers to Public and Political authorities.

Material adverse impact – A negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of their policy. When considering policyholder security these would include changes to the assets or liabilities of a Transfer Company such that there was a shift in the probability of a policyholder's claim being paid which is substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in a Transfer Company's investment portfolio, or from the reporting of a particularly large but not extreme claim to the Transfer Company's liabilities. In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim.

Minimum Capital Requirement ('MCR') – The level above which an insurer's available resources must stay to avoid severe supervisory action, such as the insurer's liabilities being transferred to another insurer, the licence of the insurer being withdrawn, the insurer being closed to new business and its in-force business being liquidated.

Net – Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.

Own Risk and Solvency Assessment ('ORSA') – A requirement under Solvency II for an assessment and documentation of the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a firm faces or may face and to determine the funds necessary to ensure that overall solvency needs are met at all times.

Part VII Transfer – A court process for transferring insurance business, ranging from single contracts to an entire portfolio, to another insurer. The insurers involved can either be in the same insurance/reinsurance group or from different corporate groups. FSMA requires that the transferor and transferee company appoint an Independent Expert who considers the impact of the proposed transfer on the various groups of affected policyholders and submits a report to the Court.

Passporting – Exercising the right to do business in any European Economic Area state by an entity registered in any other European Economic Area state without needing to apply for further authorisation. It is unknown whether this will remain a right after Brexit.

Policyholder obligation – The contractual obligation of an insurer to its policyholders.

Policyholder security – The degree of certainty that policyholders have that an insurer will have the financial resources available to meet its policyholder obligations.

Premium – The amount of money received by an insurer in return for providing an insurance policy providing protection to an insured against the financial consequences of a specified set of potential events. Premium can be measured gross or net of reinsurance, meaning before or after the deduction of any associated reinsurance premiums paid by the insurer. Premium is measured on a 'written' basis, meaning all premiums receivable on policies commencing within a given period, or is measured on an 'earned basis', meaning the amount of premium attributable to the accounting period based on some allocation of the premium across the period during which the underlying policy is exposed to risk.

Prudential Regulation Authority ('PRA') – The Financial Services Authority was reorganised into two separate regulatory agencies during 2013. The successor organisations are the Prudential Regulation Authority and the Financial Conduct Authority. The Prudential Regulation Authority is part of the Bank of England and carries out the prudential regulation of financial firms, including banks, investment banks, building societies and insurance companies.

Reinsurance – An insurance contract between one insurer (the reinsurer) and another insurer (the cedant) to indemnify against losses of the cedant on one or more contracts issued by the cedant in exchange for a consideration (the premium). Reinsurance is 'insurance for insurers', allowing insurers to share potential insurance losses with a reinsurer and hence reduce their own risk. Similar to insurance policies, reinsurance policies are written to cover specific pre-agreed risks and eventualities, as detailed in the reinsurance contract.

The Report – The report produced by the Independent Expert.

Reserves – See 'Claims Reserves'.

Sanction – To receive approval from the Court to proceed (with the Transfer).

SF SCR- The Solvency Capital Requirement calculated using a Standard Formula under Solvency II.

Solvency II – The EU's revision of insurance regulation designed to improve consumer protection, modernise supervision, deepen market integration and increase the international competitiveness of European insurers, which came into effect from 1 January 2016. Under this new system insurers are required to take into account a wide variety of different types of risk to which they are exposed and to demonstrate they manage those risks effectively. The new system has introduced more sophisticated solvency requirements for all EU insurers, in order to guarantee that they have sufficient capital to withstand adverse events (for example, floods or investment market crises).

Solvency Capital Requirement ('SCR') – An insurance entity's Solvency II capital requirement.

Stressed scenario – Consideration of the impact (current and prospective) of a particular defined set of alternative assumptions or outcomes that are adverse. Consideration is given to the effect on the insurance company assets, liabilities and operations of a defined adverse scenario.

Subsidiary – A company controlled by another (called the parent) through the ownership of greater than 50 percent of its shares.

Surplus – An insurance undertaking typically holds assets of greater value than its contractual liabilities. The difference between these two amounts is often described as the surplus assets, and is usually compared against the amounts of regulatory capital that the undertaking is required to hold.

TASs – Technical Actuarial Standards issued by the Financial Reporting Council.

Tokio Marine Group – A group of international entities conducting business under the Tokio Marine brand including Tokio Marine Nichido Fire (TMNF), Tokio Marine Kiln Insurance (TMKI), HCC International Insurance Company PLC (HCCI) and Tokio Marine Europe (TME)

Tokio Marine HCC Group ("TMHCC Group") – The parent company of HCCI, who are a subsidiary on TMNF.

Tokio Marine Europe SA ('TME') – A new non-life insurance company set up and regulated in Luxembourg, which is a subsidiary of HCCI and is the receiving Transfer Company in the Part VII Transfer.

Tokio Marine Kiln Insurance Limited ('TMKI') – A UK-regulated non-life insurance company, incorporated in England and Wales, which is part of the Tokio Marine Group and is one of the Transfer Companies in the Part VII Transfer.

Tokio Marine Nichido Fire ('TMNF') – A Japanese- regulated non-life insurance company which is a subsidiary of the Tokio Marine Group.

The Transfer – In the context of this report, I mean the proposal that TMKI and HCCI will transfer its European insurance business to TME under the provisions of Part VII of the Financial Services and Markets Act 2000.

Transferors- Tokio Marine Kiln Insurance Limited and HCC International Insurance Company PLC.

Transferee- Tokio Marine Europe SA who will be accepting the transferred policyholders.

The Transfer Companies – Tokio Marine Kiln Insurance Limited (TMKI), Tokio Marine Europe SA (TME) and HCC International Insurance Company PLC (HCCI).

Transferring policyholders – Includes policyholders of TMKI and HCCI for which any liability or contingent liability will transfer to TME on the Effective Date.

Treating Customers Fairly ('TCF') – A set of principles set out by the FCA to ensure customers are being treated fairly.

Underwriting – In general insurance, this is the process of consideration of an insurance risk. This includes assessing the appropriate premium, together with the terms and conditions of the cover as well as assessing the risk in the context of the other risks in the portfolio.

Well capitalised – Having capital resources comfortably in excess of the regulatory requirement; in this case I use it when the ratio is over 125%.

Written premium – See 'Premium'.

Very well capitalised – Having capital resources comfortably in excess of the regulatory requirement; in this case I use it when the ratio is over 200%.

Appendix 6 List of TMKI and HCCI representatives in attendance at interviews carried out

Name	Position	Business Unit
Nick Hutton-Penman	Chief Operating Officer (on Board of Directors for TME)	HCCI/ TME
Katherine Letsinger	Chief Financial Officer (on Board of Directors for TME)	HCCI/TME
David Fletcher	Head of Underwriting Operations and Strategic Risk	HCCI
Sylwia van Kan	Head of International Reserving	HCCI
Shivani Obhrai	Head of International Capital Modelling	HCCI
Graham White	Chief Risk Officer and Chief Actuary	HCCI
Karen Cordier	Head of Prudential Regulation and Governance	HCCI
Su Fen Lim	Global Strategy	TM Holdings, Inc.
Wilfred Chin	Chief Actuary	TMKI
James Dover	Group Chief Financial Officer	TMKI
Fiona Molloy	Group Company Secretary	TMKI
Brian Heffernan	Group Chief Actuary	TMKI
Denise Garland	Former Chief Operating Officer (Resigned 31.12.2017)	TMKI

Appendix 7 Details of proposed policyholder communication

The following is summarised from first Witness Statements:

Gazettes and Newspapers

TMKI and HCCI will publish a notice stating that the application has been made in a form approved by the PRA in consultation with the FCA in:

a) the London, Edinburgh and Belfast Gazettes;

b) The Times (UK and international editions); and

c) The Financial Times (UK and international editions).

I believe this is consistent with the requirements for policyholder communication.

Policyholders in EEA States

TMKI believe that there are only six jurisdictions in which there were more than 100 TMKI Transferred Policies of direct insurance as at 31 December 2016 other than the UK, being Belgium (approximately 312 policyholders), France (approximately 50,953 policyholders), Germany (approximately 1,226 policyholders), Italy (approximately 224 policyholders), the Netherlands (approximately 203 policyholders) and Spain (approximately 1,146 policyholders).

HCCI has reviewed its records to identify among the HCCI Transferred Policies the policies of direct insurance under which the situation of the risk was an EEA State other than the UK at the time they were entered into. For such policies, HCCI believes that there were only eight jurisdictions in which there were more than 100 policyholders as at 31 December 2016 being Belgium (approximately 438 policyholders), France (approximately 878 policyholders), Germany (approximately 521 policyholders), Ireland (approximately 7,189 policyholders), Italy (approximately 943 policyholders), the Netherlands (approximately 386 policyholders), Portugal (approximately 436 policyholders) and Spain (approximately 43,200 policyholders).

TMKI and HCCI estimate that the cost of publishing a notice in two national newspapers in an EEA State would be approximately £10,000 per EEA State. TMKI and HCCI intend to publish a notice in two national newspapers in each of Belgium, France, Germany, Italy, the Netherlands and Spain and in Ireland and Portugal. The cost of publishing notice in two national newspapers in other EEA States would be disproportionately expensive in light of the small number of policyholders.

TMKI has reviewed its records to identify among the TMKI Transferred Policies the contracts which reinsure policyholders which were established in EEA States other than the UK at the time they were entered into. For such contracts, TMKI believes that there were no jurisdictions in which there were more than 100 cedants as at 31 December 2016. HCCI has reviewed its records and found only one jurisdiction in which there are more than 100 cedants: Spain (approximately 1,166 cedants).

TMKI and HCCI expect the cost of publishing a Notice in a business newspaper in each EEA State would be approximately £5,000 per jurisdiction. HCCI will publish a Notice in a business newspaper in Spain. It is respectfully submitted that the costs of publishing a notice in a business newspaper in any other EEA State would be disproportionately expensive in light of the small numbers of cedants in EEA States.

I believe the above approach proposed by HCCI and TMKI to be appropriate, given that I conclude that transferring policyholders (all of whom will be in EEA states) will benefit as a

result of the Transfer as it is solely intended to protect their position as closely as possible from any adverse consequences of Brexit.

Policyholder Mailing

Rather than sending a copy of the Notice to policyholders it is intended that a more detailed document is sent to all Active TMKI and HCCI Transferring Policyholders and Direct TMKI and HCCI Transferring Policyholders. Active Policyholders refer to those policyholders who are transferring with outstanding claims and Direct Transferring Policyholders refers to those whose policies are transferring and whose contract was written directly with TMKI and HCCI rather than through brokers or Coverholders.

TMKI intends to fully reinsure all of the net liabilities under the TMKI Transferred Business and therefore will remain exposed to all the liabilities under the TMKI Transferred Business. Given the limited impact the Scheme will have on TMKI's existing exposure to the TMKI Transferred Business, it is proposed that the holders of non-transferring policies issued by TMKI will not be sent a copy of the Policyholder Statement. It is further proposed not to notify the non-transferring policyholders of HCCI directly as TME is a wholly owned subsidiary of HCCI and the liabilities of TME will be consolidated into HCCI's balance sheet. Given the limited impact of the Scheme on HCCI due to the fact that that HCCI's consolidated balance sheet will continue to include the liabilities under the HCCI Transferred Business, it is proposed that the holders of non-transferring policies issued by HCCI will not be sent a copy of the Policyholder Statement.

Given the high levels of capital cover for all of the Transfer Companies both pre- and post-Transfer, and the reinsurance arrangements put in place to maintain economic responsibility for policyholders' claims with their original companies, I believe that this non-notification of non-Transferring policyholders is reasonable.

Save as described above in respect of Active Policyholders, policyholders whose policies were arranged using brokers or Coverholders will not be notified directly. The brokers and Coverholders will receive notice and they will be requested to communicate with the policyholders.

This is a common practical solution to the situation where a company does not possess the detailed contact details for policyholders that have purchased an insurance policy through an intermediary, and is reasonable.

TME does not currently have any policyholders but intends to start writing policies during 2018. TME will provide a copy of the HCCI or TMKI Policyholder Statement and a copy of the Summary of the Transfer to these policyholders.

I believe that this approach is appropriate given that these future new policyholders are not currently known.