SUPPLEMENTAL REPORT OF THE INDEPENDENT EXPERT ON THE PROPOSED TRANSFER OF THE UK BRANCH INSURANCE BUSINESS FROM SOMPO JAPAN NIPPONKOA INSURANCE INC. TO TRANSFERCOM LIMITED

1 Introduction

1.1 I, Gary G Wells, prepared a report to the court, dated 28 October 2015, entitled, "Report of the Independent Expert on the proposed transfer of the UK branch insurance business of Sompo Japan Nipponkoa Insurance Inc. to Transfercom Limited" (the **Report**).

1.2 In the Report I stated that shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I would prepare a Supplemental Report covering any relevant matters which might have arisen since the date of the Report. In particular I stated that I would consider the extent to which the operational plans of Transfercom and/or SJNKI have altered (relative to the position at the date of the Report) and the actual changes in assets and liabilities (relative to the position as at 31 December 2014 for Transfercom and as at 31 March 2015 for SJNKI) and hence whether there have been any changes (including those associated with current economic conditions) that would affect my overall opinion as expressed in the Report.

1.3 I set out below my considerations with regard to changes in operational plans and the changes in assets and liabilities of Transfercom and SJNKI. I also comment on other relevant developments.

1.4 In order to provide this Supplemental Report (the **Supplemental Report**), SJNKI and Transfercom have provided me with additional information, including updated financial information. The additional data provided is set out in Appendix A.

1.5 This Supplemental Report should be read in conjunction with the Report. This Supplemental Report has been produced on the same bases as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations. Terms used in this Supplemental Report have the same meanings as in the Report.

1.6 Reliance has also been placed upon, but is not limited to, the additional information detailed in Appendix A. My opinions depend on the substantial accuracy of this data, information and the underlying calculations. Transfercom and SJNKI have both confirmed to me in writing that to the best of their knowledge and belief all data and information they have provided to me is accurate and complete (see Letters of Representation, Appendix B).

1.7 The conclusions set out in this Supplemental Report are based largely on unaudited data provided by SJNKI and Transfercom as at 30 September 2015 (and in some cases on draft figures as at 31 December 2015). I have also referred to financial data from NICO as at 30 September 2015. In all cases I have requested the most recent data available, but it should be noted that, as at the date of this report, audited financial statements as at 31 December 2015 from Transfercom and 31 March 2016 from SJNKI are not yet available. Both SJNKI and Transfercom have informed me that there have been no developments since the latest data made available to me which are relevant to the Scheme.

1.8 This Supplemental Report has been prepared in accordance with the following applicable Technical Actuarial Standards ("TASs"), as issued by the Board for Actuarial Standards: Insurance TAS, Transformations TAS and TAS-R (Reports); and to the extent relevant TAS-D (Data) and TAS-M (Modelling). This Supplemental Report, together with the Report, is intended to form an "aggregate report" as defined in TAS-R.

2 Changes in Assets and Liabilities up to the Effective Date

SJNKI

2.1 SJNKI has provided me with unaudited results for the 6 month period to 30 September 2015. These include details of net premiums written (split by major line of business), profit and loss figures, and the solvency margin calculations (as at 31 March 2015 and 30 September 2015).

2.2 Written premiums in the 6 months to 30 September 2015 were around 4% higher than in the same period in 2014: ¥1,140.6 billion (net) as compared to ¥1,097.4 billion (net) for 2014. SJNKI (generally) has continued to write a similar range of business, but with a large increase (circa 17%) in the Fire and Allied Lines segment brought about by increased demand resulting from the abolition of long-term policies (with terms over 10 years) and premium rate changes in October 2015.

2.3 The underwriting result for SJNKI (generally) deteriorated in the 6 month period to 30 September 2015 compared to same period in 2014: ¥19.6 billion (loss) as compared to ¥25.6 billion (profit) for 2014. The deterioration was mainly due to the provision for catastrophe claims (¥68.5 billion largely for Typhoons 15 and 18 in 2015).

2.4 As at 30 September 2015, the net assets of SJNKI (as measured for solvency purposes) were ¥2,551.1 billion compared to a regulatory solvency margin of ¥665.4 billion, producing a solvency margin ratio of 383.4% (the comparable figures as at 31 March 2015 were ¥2,655.6 billion, ¥719.8 billion and 369.1% respectively).

2.5 The capital position of SJNKI (generally) remains strong and has not changed materially (improved slightly) from the position reported as at 30 September 2014 (and 31 March 2015) despite the recent catastrophe losses (referred to in paragraph 2.3 above).

2.6 I am informed by the management of SJNKI that there have been no significant developments in the assets and liabilities of SJNKI (generally) since 30 September 2015 (the most recent date at which financial information is available).

2.7 Overall therefore, my review of the changes in the assets and liabilities of SJNKI (generally) since 30 September 2014 and 31 March 2015, as described above, has not given me reason to change any of the conclusions I set out in the Report in relation to SJNKI (generally).

2.8 SJNKI has also provided me with a spreadsheet detailing claim payments in the 6 month period to 30 September 2015, and reported reserves as at 30 September 2015 and 31 March 2015 for the Relocated Business (essentially the Transferring Business) by treaty, cedant and type of contract.

2.9 The technical reserves booked by the UK Branch as at 31 March 2015 in respect of the Relocated Business were $51.7 million (£34.8 million) as per the UK Branch's PRA Return at said date, made up of reported reserves of $10.5 million plus an IBNR amount of $41.2 million (therefore the IBNR-to-outstanding ratio is 3.9).

2.10 The technical reserves booked by the UK Branch as at 31 March 2015 reflect the paid claims (of $3.4 million) in the 18 month period to 31 March 2015 (i.e. the period from the last valuation as at 30 September 2013 to 31 March 2015) and is consistent with the reserve range developed by the external actuaries as at 30 September 2013 (see paragraph 7.13 of the Report).

2.11 The claims paid by the UK Branch during the 6 month period to 30 September 2015 were $0.8 million and the reported reserves were $10.4 million. The technical reserves as at 30 September 2015 have been estimated by SJNKI to be $50.9 million (determined simply by deducting the paid claims of $0.8 million from the technical reserves of $51.7 million booked as at 31 March 2015). The resulting IBNR-to-outstanding ratio is 3.9 which is consistent with the corresponding ratio as at 31 March 2015.

2.12 As at 31 March 2015 the UK Branch had admissible assets (as per the UK Branch's PRA Return at said date) of £43.2 million, made up of £40 million in fixed interest securities, £2.7 m in cash and deposits, and £0.5 million in "other" assets.

2.13 On 30 September 2015, SJNKI increased the fixed interest securities component of the assets maintained in the UK Branch by £10 million to £50 million. In addition, the UK Branch held £2.6 million in cash and deposits, producing total admissible assets of £52.6 million as at 30 September 2015.

2.14 The excess of admissible assets over liabilities (predominantly the technical reserves) as at 30 September 2015 is therefore estimated to be £19.0 million (i.e. £52.6m less £33.6m[1]), compared to £8.3 million as at 31 March 2015. This increase is largely attributable to an increase of £10 million in the assets maintained by SJNKI in the UK Branch (see paragraph 2.13 above). The increased level of excess admissible assets means that the capital resources of the UK Branch as at 30 September 2015 increased both in absolute terms, measured against that as at 31 March 2015, and in relative terms (measured by the ratio of capital resources to the corresponding MCR) compared to the position as at 31 March 2015, thereby strengthening the security of the policyholders of the UK Branch.

2.15 I am informed by the management of SJNKI that there have been no significant developments in the assets and liabilities of the UK Branch since 30 September 2015 (the most recent date at which financial information is available).

2.16 Overall therefore, my review of the changes in the assets and liabilities of UK Branch since 31 March 2014 and 31 March 2015, as described above, has not given me reason to change any of the conclusions I set out in the Report in relation to the UK Branch.

Transfercom

2.17 Transfercom has provided me with unaudited management accounts for the company for the 9 month period to 30 September 2015. These include a profit and loss account and balance sheet for Transfercom, split by major line of business (i.e. the Fortress Re and the non-Fortress Re books) as well as some commentary on developments in the period.

2.18 There were no portfolio transfers in to Transfercom during the 9 months to 30 September 2015.

2.19 The management accounts over the 9 months to 30 September 2015 show that in total, across all lines of business, there has been a nil underwriting result (as NICO effectively reinsures all claims and run-off costs); and an overall loss of £0.4 million, which is largely attributable to the interest costs on the funds withheld in relation to the Fortress Re book.

2.20 Transfercom has also provided me with the actuarial roll-forward reserve analysis for the 24 month period to 31 May 2015. The analysis reviews the Fortress Re and Non-Fortress Re books separately.

[1] Using an exchange rate of £1.00 = $1.52 as at 30 September 2015.

2.21 The experience of the Fortress Re book over the 6 month period to 31 May 2015, has been favourable, i.e. there was a substantial gross incurred release (which can alternatively be described as a substantial negative gross incurred movement) associated with a relatively small amount for gross paid claims. Accordingly, the internal actuaries continue to be of the view that an IBNR amount may not be needed in addition to the known amounts already booked as at 31 May 2015.

2.22 Nonetheless, Transfercom carried an IBNR of nearly 60% of the known amounts in addition to the outstanding reserves as at 31 May 2015 (compared to an IBNR-to-outstanding ratio of circa 40% as at 30 November 2014). The IBNR-to-outstanding ratio has increased between the two valuations indicating, all other things being equal, a relative strengthening of the gross reserves accounted for as at 31 May 2015.

2.23 For the Non-Fortress Re book (dominated by APH liabilities) the analysis considers paid and incurred movements in the period and whether these are in line with expectations. The internal actuaries expressed the view that the paid and incurred movements in the 24 month period had been broadly in line with expectations, and as such the reserve established as at 31 May 2015 was simply calculated as the gross reserve held as at 31 May 2013 less the gross claim payments in the 24 month period to 31 May 2015.

2.24 In order to check whether the rolled-forward gross reserve as at 31 May 2015 for the Non-Fortress Re book was reasonable I calculated two metrics: the IBNR-to-outstanding ratio; and the paid survival factor (based on average gross claim payments in the 24 month period to 31 May 2015). The calculations generated: an IBNR-to-outstanding ratio of 3.4 (as compared to a corresponding ratio of 3.2 as at 31 May 2013); and a paid survival factor of 19.9 years. The IBNR-to-outstanding ratio has increased between the two valuations indicating, all other things being equal, a relative strengthening of the gross reserves. In addition, the paid survival factor of 19.9 years is in line with my experience for the liabilities being reserved (and towards the upper end of the range of market paid survival factors). Furthermore, the gross reserves held by Transfercom in the company's management accounts as at 31 May 2015 contain a large margin over the actuarially assessed gross reserves, which provides (at least in part) for the uncertainty in the ultimate gross liability for this book of business.

2.25 I am informed by the management of Transfercom that there have been no significant developments in the assets and liabilities of the company since 30 September 2015 (the most recent date at which financial information is available). However, I am informed by Transfercom that the company proposes to release $10 million of the gross reserve on the Fortress Re portfolio as at 31 December 2015, thereby reducing (in part) the gross IBNR component of the technical reserves to reflect (in part) the redundant nature of the gross IBNR reserve (see paragraph 0 above).

2.26 Overall therefore, my review of the changes in the assets and liabilities of Transfercom since 31 December 2014, as described above, has not given me reason to change any of the conclusions I set out in the Report in relation to Transfercom.

NICO

2.27 As at 30 September 2015, NICO reported a policyholders' surplus (excess assets) of $88.6bn (decreased from $94.0bn as at 31 December 2014), with total admitted assets having decreased, from $167.0bn to $159.9bn, and total liabilities having decreased, from $73.0bn to $71.3bn over the same period. NICO continues to maintain a Standard and Poor's credit rating of AA+ (albeit on negative credit watch).

2.28 Notwithstanding the monetary decrease in excess assets of NICO since 31 December 2014, the ratio of excess assets to admitted assets has decreased by less than one percentage point to 55% as at 30 September 2015. I therefore find that I have no reason to change any of the conclusions set out in the Report with regard to the financial strength of NICO.

3 Changes in Regulatory Capital Regime

3.1 The Solvency II risk-based capital regime became effective as of 1 January 2016, and the previous Solvency I (and ICAS for UK insurance entities) regime(s) ceased to be applicable. As such UK insurance entities operating from 1 January 2016 need to be compliant with the requirements of Solvency II.

3.2 A key change under Solvency II compared to Solvency I is that both the assets and liabilities are valued on a market consistent basis (whereas under Solvency I only the assets were assessed at a market value, subject to admissibility rules).

3.3 Therefore under Solvency II, the calculation of Technical Provisions in respect of claims incurred and losses arising from unexpired exposures (typically the largest item on the liability side of an insurer's balance sheet), and hence the balance sheet itself, typically change substantially when compared to previous Solvency I regime and current requirements for IFRS/UK GAAP.

3.4 I set out in Appendix C simplified details for the balance sheet, and the calculation of Technical Provisions (in respect of claims incurred and losses arising from unexpired exposures) for an insurer under Solvency II.

SJNKI – the UK Branch

3.5 The UK Branch of SJNKI is required to meet the requirements of Solvency II directive, and I am informed by SJNKI that the UK Branch is currently complying with all such requirements, notwithstanding the proposed Scheme.

3.6 SJNKI has provided me with two Solvency II related documents for the UK Branch: (1) an external actuarial report on the Technical Provisions, Solvency Capital Requirements and the ICA as at 30 September 2015; and (2) an internal ORSA[2] report as at 30 September 2015.

3.7 Firstly, I have reviewed the commentary prepared by external consultants on their estimated Technical Provisions as at 30 September 2015 (i.e. as contained in document (1) referred to in paragraph 3.6 above) and have considered their approach, the key issues and their results. The process adopted by the external consultants to determine the Technical Provisions under Solvency II can be summarised as follows:

- They started with the technical (claim and expense) reserves as reported in the UK Branch's PRA Return as at 31 March 2015. They considered the reasonableness of these technical reserves by comparing them with their knowledge of the market and the nature of APH liabilities. In particular, they used market benchmarks such as IBNR-to-outstanding ratios and paid survival factors for APH liabilities and concluded that the technical reserves established were a reasonable undiscounted 'best estimate' for the claims incurred as at 31 March 2015;

- Rather than deduct the paid claims in the six months to 30 September 2015 to generate a revised level of technical reserves at that date, they maintained the technical reserves at the 31 March 2015 held level. All other things being equal, I consider this to be a slightly conservative approach;

[2] The Own Risk and Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.

- Having established their undiscounted 'best estimate' technical reserves under UK GAAP, the external consultants adjusted the technical reserves for 'events-not-in-data' ("ENID"), i.e. to allow for all possible cash-flows (or events that cause them) using a grossing-up factor (equal to the reciprocal of 92% based on the A M Best industry funding factor for US Asbestos & Environmental liabilities at year-end 2013);

- Having thus determined their undiscounted 'best estimate' technical reserves under Solvency II, the external consultants developed a payment pattern in order to produce a series of future claim payments by duration that exhaust the undiscounted 'best estimate' technical reserves. They then applied the appropriate risk free yield curves as provided by EIOPA[3] (predominantly the USD yield curve as the vast bulk of the liabilities are denominated in USD) in order to produce their discounted 'best estimate' technical reserves; and

- Finally, the external consultants applied a simplified methodology (essentially applying risk margin factors, by Solvency II class of business category, as per guidance from EIOPA, to the corresponding components of the discounted 'best estimate' technical reserves) to establish the risk margin applicable to the discounted 'best estimate' technical reserves and thereby determine the Technical Provisions for the UK Branch under Solvency II as at 30 September 2015, i.e. the sum of discounted 'best estimate' technical reserves and the calculated risk margin.

3.8 I consider the methodology and modelling techniques used by the external consultants to establish the Technical Provisions for the UK Branch under Solvency II as at 30 September 2015 to be appropriate (and proportionate) to the circumstances, and the results appear reasonable.

3.9 I am satisfied that the Technical Provisions estimated for the UK Branch by the external actuaries are reasonable for the purposes of describing the effect of the Scheme in the Supplemental Report.

3.10 Secondly, I have reviewed the commentary prepared by external consultants on the estimated Solvency Capital Requirement ('SCR') as at 30 September 2015 (i.e. as contained in document (1) referred to in paragraph 3.6 above). I have considered the reasonableness of the key assumptions used in the inputs to the Solvency II standard formula template, and the results of the calculations. In assessing the reasonableness of the assumptions and results, I have considered how they compare against my knowledge of the market and similar capital assessments (for run-off entities). I have not performed a detailed assessment of the calculations used to derive the standard formula SCR as at 30 September 2015.

3.11 The most significant risks for the UK Branch under the standard formula as at 30 September 2015 were Insurance Risk, essentially Reserve Risk (on a 1-in-200 basis over a one year time horizon, as per Solvency II) and Market Risk. Reserve Risk and Market Risk each generate nearly half of the undiversified basic SCR (i.e. the undiversified SCR pre the charge for Operational Risk). The relatively high Market Risk is a function of the mismatch between assets largely denominated in GBP and liabilities largely denominated in USD.

3.12 Based on my review I am satisfied that the standard formula SCR calculations as at 30 September 2015 appear reasonable. The results show that the UK Branch was more than sufficiently capitalised as at 30 September 2015 (under Solvency II).

[3] EIOPA is the acronym for the European Insurance and Occupational Pensions Authority established in consequence of the reforms to the structure of supervision of the financial sector in the European Union.

3.13 Thirdly, I have reviewed the commentary prepared by external consultants on the ICA as at 30 September 2015 (i.e. as contained in document (1) referred to in paragraph 3.6 above). While the ICA is not applicable as a regulatory capital measure under Solvency II, I have taken it as a proxy for an assessment by the external consultants as to the amount of capital that reflects a view to ultimate for the risks faced by the UK Branch. This assessment uses a stochastic model of the insurance (reserving) risk to ultimate plus the Standard Formula approach for the other risk components. I have reviewed the methodology and key assumptions underlying the calculations performed by the external consultants in producing the ICA capital amounts and believe them to be appropriate (and proportionate) to the circumstances, and the results appear reasonable.

3.14 The most significant risk for the UK Branch generated under the ICA as at 30 September 2015 (on a 1-in-200 basis over an ultimate time horizon) is Insurance (Reserving) Risk. This risk component of the ICA requires circa 60% of the undiversified capital requirement. Market risk is the next most significant component, requiring over 35% of the undiversified capital requirement (again, as with the standard formula, driven by currency risk).

3.15 The results of the ICA show that the UK Branch was sufficiently capitalised (over a time horizon to ultimate) as at 30 September 2015. My judgement is that the results provided by the ICA appear reasonable, but I recognise that other results could have been generated using different sets of assumptions that are within the bounds of reasonableness.

3.16 The UK Branch has provided me with an ORSA report, dated December 2015 (i.e. as contained in document (2) referred to in paragraph 3.6 above) which assesses the risk profile of the UK Branch as at 30 September 2015, along with the projected capital requirements for the next three years using the Standard Formula, i.e. the Solvency II regulatory capital requirements on a 1-in-200 basis over a one-year time horizon.

3.17 The starting point for the projections in the aforesaid ORSA report is the UK Branch's GAAP balance sheet as at 30 September 2015, which is adjusted to produce the corresponding Solvency II balance sheet. The main adjustments arise from including an allowance for ENID in the technical reserves (the latter are deemed to include an expense element to allow for the run-off of the portfolio in accordance with EIOPA guidance), discounting the adjusted technical reserves (for the time value of money using an appropriate risk-free interest rate term structure as provided by EIOPA), and adding a risk margin (in accordance with EIOPA guidance). I have reviewed these adjustments and am satisfied that they appear reasonable (see paragraphs 3.7, 3.8 and 3.9 above). The SCR as at 30 September 2015 has then been assessed by the UK Branch by applying actual calculations to the Solvency II balance sheet position at this time point (as described above).

3.18 The UK GAAP balance sheets as at 30 September 2016, 2017 and 2018 have been projected from the 30 September 2015 position as follows:

- The market value of the main asset (i.e. the £50 million UK government bond) is assumed to remain at £50 million over the 3 year projection period, as claim payments are deemed to be met by drawing down the fund[4] of circa $43 million (at the date of this Supplemental Report) deposited by SJNKI with the Berkshire Hathaway Group (as per the Framework Agreement). The projected £50 million market value of the UK government bond over the 3 year projection period has been tested by the UK Branch using expected cash-flows, and does indeed remain close to this value provided the term structure of the risk-free interest rate remains broadly constant;

[4] It should be noted that the fund deposit is not accounted for as an asset of the UK Branch.

- Reducing Technical Provisions in line with the expected run-off of the business (allowing for ENID, discounting and risk margin adjustments); and

- Other expenses (such as external consultants) are met from the £0.9 million yearly bond coupon income.

3.19 I consider the methodology used by the UK Branch to establish projected Solvency II balance sheets to be appropriate (and proportionate) to the circumstances, and the results appear reasonable.

3.20 I have considered the reasonableness of the key assumptions used in the inputs to the Solvency II standard formula template for the projected SCRs as at 30 September 2016, 2017 and 2018 based on the corresponding projected Solvency II balance sheets at these dates, and the results of the calculations. In assessing the reasonableness of the assumptions and results, I have again considered how they compare against my knowledge of the market and similar capital assessments (for run-off entities). I have not performed a detailed assessment of the calculations used to derive the standard formula SCR as at 30 September 2016, 2017 or 2018.

3.21 The most significant risks for the UK Branch under the standard formula as at 30 September 2016, 2017 and 2018 are (as for assessment as at 30 September 2015) Insurance Risk (essentially Reserve Risk) and Market Risk. Each of these components of the standard formula contribute nearly half of the undiversified basic SCR. Market risk continues to be driven by the mismatch between assets largely denominated in GBP and liabilities largely denominated in USD.

3.22 Based on my review I am satisfied that the standard formula SCR calculations as at 30 September 2015, 2016, 2017 and 2018 appear reasonable. The ORSA results for the UK Branch show an increasing trend over time of surplus Own Funds over the corresponding SCR, such that UK Branch is projected to move from a more than sufficiently capitalised position as at 30 September 2015 to a well-capitalised position by 30 September 2018.

3.23 In my review of the required capital assessed by SJNKI using the standard formula as per the UK Branch's ORSA, I have also considered the stress and scenario tests performed by SJNKI and how the results of these stress and scenario tests compare with the corresponding capital charges arising from the Solvency II standard formula for the UK Branch. In particular, SJNKI has tested:

- individually circa one third increases in the claims frequency and claim severity. Both of these tests lead to a capital charge (impact on Own Funds of an amount) similar to that arising from the standard formula for reserve risk;

- a failure of the deposit taking bank, leads to a counterparty charge in excess of that arising from the standard formula, but well within the Own Funds available to meet such contingencies;

- a 10% appreciation in the USD, leads to a lower charge than that arising from the standard formula for currency risk; and

- a shift in the yield curve (as at 30 September 2015) such that short-term rates decrease while long-term rates increase (as per the PRA's "General Insurance Stress Test 2015") leads to an increase in Own Funds as the liabilities are of longer duration than the that of the backing assets.

3.24 I have undertaken a reverse stress test on the liabilities to assess the size of increase in both the claims frequency and the claim severity that would absorb SJNKI's estimated (tier 1) Own Funds for the UK Branch as at 30 September 2015. Based on my calculations, I estimate that the UK Branch's (tier 1) Own Funds could absorb an increase in both the claims frequency and claim severity of circa 30%. This test indicates that due to the long-tailed nature of the liabilities, fairly small increases in the claims frequency and/or severity lead to relatively large reserve deteriorations (i.e. deteriorations that potentially threaten to absorb the Own Funds of the UK Branch).

3.25 Based on my review, I consider the stress and scenario tests used by SJNKI to test the robustness of the UK Branch's Own Funds to be reasonable, but recognise that other more adverse results could have been generated using different sets of assumptions for the stress tests that are within the bounds of reasonableness.

3.26 My review of SJNKI's 2015 ORSA report for the UK Branch as described above has demonstrated to me the degree of robustness contained in the Solvency II (standard formula) capital positions as at 30 September 2015, 2016, 2017 and 2018, and the key uncertainties in those projections.

Conclusion with regard to the pre-Scheme Solvency II Own Funds of the UK Branch

3.27 ***I am satisfied that the Own Funds of the UK Branch currently afford the policyholders of the UK Branch a level of security under Solvency II consistent with my definition of a more than sufficiently capitalised company.***

Transfercom

3.28 Transfercom has provided me with two Solvency II related documents: (1) an internal ORSA report as at 30 September 2015; and (2) an internal assessment of the capital position of Transfercom pre- and post-Scheme.

3.29 I have reviewed the internal ORSA report (submitted to the PRA on 28 October 2015) that includes details on the estimated Technical Provisions, the Solvency II balance sheet and capital requirements as at 31 December 2014, and projected on an annual basis to 31 December 2017, and have considered the approach, the key issues and the results generated by Transfercom. The process adopted to determine the Technical Provisions under Solvency II can be summarised as follows:

- The internal actuaries of Transfercom started with their undiscounted 'best estimate' technical (claim) reserves (that include an implicit allowance for ENID) as assessed by them based on data as at 30 November 2014 (as described in the Report);
- The discounted 'best estimate' technical reserves (and the impact of the reinsurance cover and the timing of any default event) were evaluated using an internally developed simulation tool (stochastic model) employing internally developed payment patterns and appropriate risk free yield curves as provided by EIOPA;
- The discounted 'best estimate' technical reserves were input in to the standard formula spreadsheet, which generated the SCR insurance risk requirement (based on net insurance liabilities alone);
- The SCR insurance risk requirement was fed into a calculation of the risk margin, as set out in the Solvency II requirements, to generate the risk margin;

- The asset information was input into the standard formula spreadsheet as well as the net liabilities so the overall SCR was calculated. This incorporates operational risk, reinsurer default within the counterparty risk, insurance (reserving) risk and also market risk relating to the non-cash assets. The counterparty risk output of the standard formula also includes an allowance for failure of the banks holding any cash.

3.30 I have not performed a detailed assessment of the calculations used to derive the Technical Provisions or the standard formula SCR as at 31 December 2014, rather I have considered the methodology and modelling techniques used by the internal actuaries to establish the Technical Provisions, and the reasonableness of the key assumptions used in the inputs to the standard formula spreadsheet. Based on my review (including consideration of how the SCR compares against my knowledge of the market and other standard formula SCR assessments for run-off entities) I am satisfied that the results of the calculations of the Technical Provisions and the SCR for Transfercom under Solvency II as at 31 December 2014 are appropriate (and proportionate) to the circumstances, and appear reasonable.

3.31 The results of the standard formula SCR and Own Funds (the latter calculated as outlined in paragraph 3.37 below) show that Transfercom was very well-capitalised as at 31 December 2014 (under Solvency II).

3.32 In addition, as Transfercom is in run-off, the company's management have also considered the capital requirement to a confidence level of 97.5% to ultimate, which is considered managements' Own Economic Capital Requirement ('OECA'). Again I have not performed a detailed assessment of the calculations used to derive the OECA as at 31 December 2014, rather I have considered the reasonableness of the key assumptions used in the inputs to the OECA, and the results of the calculations. The company's assessment uses a simulation model to generate the insurance (reserving) risk to ultimate (which also calculated the impact of reinsurance cover and the timing of any default event) plus the Standard Formula approach for the other risk components. Based on my review (including consideration of how the OECA compares against my knowledge of the market and similar capital assessments for run-off entities) I am satisfied that the results of the calculations of the OECA for Transfercom under Solvency II as at 31 December 2014 are appropriate (and proportionate) to the circumstances, and appear reasonable.

3.33 The most significant risk for Transfercom under the standard formula as at 31 December 2014 was Counterparty Risk (because of the very heavy reliance on reinsurance recoveries from NICO) which accounted for around 65% of the undiversified basic SCR (i.e. the undiversified SCR pre the charge for Operational Risk). The other components of the undiversified basic SCR were Market Risk (essentially the interest rate risk arising from the mean term of the liabilities being longer than that of the assets) and Reserve Risk (on a 1-in-200 basis over a one year time horizon, as per Solvency II) which accounted for around 25% and 10% respectively of the amount. Operational Risk (calculated using a relatively simplistic approach under the standard formula) contributed circa 25% of the SCR (i.e. after allowing for diversification benefits to the basic SCR).

3.34 The capital charges by risk type arising from the OECA as at 31 December 2014 were similarly dominated by counterparty risk, which accounted for around 80% of the undiversified capital requirement (pre Operational Risk) primarily because of the use of a stochastic model which has greater sensitivity to changing credit ratings than that assumed in the standard formula. The other components of the undiversified capital requirement (pre Operational Risk) were Market Risk (essentially the interest rate risk arising from the mean term of the liabilities being longer than that of the assets) and Reserve Risk (on a 1-in-40 basis over an ultimate time horizon) which both accounted for around 10% of the amount. Operational Risk (calculated using the standard formula approach) contributed around 10% of the OECA (i.e. after allowing for diversification benefits on the undiversified capital requirement pre Operational Risk).

3.35 The results of the OECA and Own Funds (the latter calculated as outlined in paragraph 3.38 below) show that Transfercom was very well-capitalised (over a time horizon to ultimate) as at 31 December 2014. My judgement is that the results provided by the OECA appear reasonable, but I recognise that other results could have been generated using different sets of assumptions that are within the bounds of reasonableness.

3.36 In addition to the capital measures as at 31 December 2014, the ORSA report also assesses the capital requirements for Transfercom for each of the next three years to 31 December 2017, using the Standard Formula (i.e. the Solvency II regulatory capital requirements on a 1-in-200 basis over a one-year time horizon) and the OECA (on a 1-in-40 basis over an ultimate time horizon).

3.37 The starting point for the projections in the aforesaid ORSA report is Transfercom's GAAP balance sheet as at 31 December 2014, which is adjusted to produce the corresponding Solvency II balance sheet. The main adjustments arise from a restatement of the booked technical reserves to a 'best estimate' (including an allowance for ENID), revised discounting of the adjusted technical reserves (for the time value of money using an appropriate risk-free interest rate term structure as provided by EIOPA), adding a risk margin (in accordance with EIOPA guidance), a restatement to a 'best estimate' of future interest payments (on the funds withheld in relation to the Fortress Re book) and a restatement to a 'best estimate' of other balance sheet items (the latter restatement being relatively small). I have reviewed these adjustments/restatements and am satisfied that the Own Funds that emerge appear reasonable. The SCR as at 31 December 2014 has then been assessed by Transfercom by applying actual calculations to the Solvency II balance sheet position at this time point (as described above).

3.38 The balance sheet for the OECA as at 31 December 2014 follows that determined under Solvency II principles (as described in paragraph 3.37 above) other than the removal of the risk margin (as there is no intention to transfer the business of Transfercom outside the Berkshire Hathaway Group and as such is not recognised in the OECA).

3.39 The Solvency II and OECA balance sheets as at 31 December 2015, 2016 and 2017 have been projected from the 31 December 2014 position using the key assumption that the Technical Provisions run-off as expected creating neither a profit or loss.

3.40 I consider the methodology and key assumptions used by the Transfercom to establish projected Solvency II and OECA balance sheets to be appropriate (and proportionate) to the circumstances, and the results appear reasonable.

3.41 The projected SCRs and OECAs as at 31 December 2015, 2016 and 2017 have been developed as for corresponding capital measures as at 31 December 2014, but based on the projected Solvency II or OECA (as appropriate) balance sheets at these dates. As such I am satisfied that the results are reasonable.

3.42 The relative magnitude of the risks for Transfercom under the standard formula and the OECA as at 31 December 2015, 2016 and 2017 follows closely those for the corresponding assessment as at 31 December 2014 (i.e. Counterparty Risk remains the dominant risk over the projection period).

3.43 Based on my review, I am satisfied that the standard formula SCR and OECA calculations as at 31 December 2014, 2015, 2016 and 2017 appear reasonable. The ORSA results for Transfercom show a broadly flat trend over time of surplus Own Funds over the corresponding standard formula SCR or OECA, such that Transfercom is projected to remain a very well-capitalised company on both standard formula SCR and OECA measures throughout the projection period.

3.44 In my review of the required capital assessed by Transfercom using the standard formula and OECA, I have also considered the stress and scenario tests performed by Transfercom and how the results of these stress and scenario tests compare with the corresponding capital charges arising from the Solvency II standard formula for Transfercom. In particular, Transfercom has tested on both standard formula SCR and OECA bases:

- sensitivity tests on the capital measures to changes in reinsurer (NICO's) rating, a lengthening of the payment pattern, overstating or understating the gross best estimate reserves, adjusting the variability of the gross best estimate reserves, adjusting upwards and downwards the correlations between classes of claim, a shortening and lengthening of the payback of the funds withheld, and flexing the yield curves up and down for discounting. I have reviewed the sensitivity tests undertaken for both the magnitude of the sensitivities and the results produced. I am satisfied that the tests vary the key parameters in plausible (favourable and adverse) ways while still giving results that show for all the sensitivity analyses that the company has surplus capital on both OECA and the standard formula SCR bases;

- scenario tests involving: (1) inflation at 5% per annum until all liabilities are extinguished; (2) asbestos exposure doubling over 5 years; and (3) a new liability class of order 50% of the size of asbestos exposures evolving in next 5 years. The inflation scenario to ultimate sees the gross exposure exceeding the level of reinsurance protection provided by NICO indicating that the capital safety margin could get eroded by sustained inflation. This scenario is the only one of the three listed above which falls outside OECA and standard formula SCR capital requirement estimates. It should be noted that the 5% per annum inflation assumption is in addition to the inflation implicitly included within existing projections (stated to be 2.75% per annum) and has been applied without taking account of the impact of inflation exhausting policy limits. The rate has been applied to projected cash flows until the estimated extinguishing of the liabilities in around 50 years' time (the mean term of the liabilities being around 14 years). I would regard the likelihood of a period of sustained inflation at these sort of levels as being very remote;

- reverse stress tests to ascertain what scenarios could lead to the erosion of all the company's own funds. Such scenarios include: the failure of NICO; default of the US government; a very substantial deterioration of gross technical reserves; or a combination of such events. With regard to the deterioration of gross technical reserves, based on figures as at 31 December 2014, reserves on both the Fortress Re and non-Fortress Re accounts would need to more than double before the NICO reinsurance was exhausted, and even in such circumstances Transfercom would continue to be able to pay more than $50 million of claims before it became insolvent. In my view the scenarios considered for the reverse stress tests are suitably remote that I've not considered them further.

3.45 Based on my review, I consider the sensitivity, stress and scenario tests undertaken by Transfercom to test the robustness of the company's Own Funds to be reasonable, but recognise that other adverse results could have been generated using different sets of assumptions for the tests that are within the bounds of reasonableness.

3.46 My review of Transfercom's 2015 ORSA report as described above has demonstrated to me the degree of robustness contained in the OECA and Solvency II (standard formula) capital positions as at 31 December 2014, 2015, 2016 and 2017, and the key uncertainties in those projections. The ORSA shows that Transfercom was very well capitalised as at 31 December 2014, with available assets of several times the standard formula SCR. This situation was projected to continue throughout the projection period (i.e. 2015 to 2017) albeit the solvency margin was projected to reduce slightly as a result of the implementation of the Scheme in 2016, and then increase slightly in 2017. The ORSA shows that the OECA capital requirement is set at a higher level than the SCR, but nevertheless, indicates that Transfercom was very well capitalised as at 31 December 2014 and was projected to be throughout the projection period, following a similar pattern to that of the SCR.

3.47 Transfercom has provided me with an analysis of the capital position of the company on a pre- and post-Scheme basis were the Scheme to be implemented as at 30 September 2015. The results of this analysis are in line with those shown in the ORSA. As at 30 September 2015 Transfercom was very well capitalised on both the standard formula SCR and OECA bases. These solvency ratios are expected to reduce slightly as a result of the Scheme, but Transfercom will remain very well capitalised.

3.48 The Transferring Business is assumed to be comprised of undiscounted gross technical (claims) reserves of $50 million and $4 million for ULAE, supported by the NICO Agreement (i.e. the covering asset) that has a limit of $144.6 million of remaining claims cover, and $15 million for ULAE, both with no retention.

3.49 The post-Scheme modelling undertaken by Transfercom for the OECA and standard formula SCR as at 30 September 2015 used the same methodology as that employed for the pre-Scheme position, but assumed a higher (more conservative) gross claims variability for the Transferring Business than that currently assumed for the Transfercom business (pre-Scheme). The company has also assumed a strong correlation between asbestos claims arising from the non-Fortress Re book and those arising from the Transferring Business (other between-claim class correlations have been assumed to range between weak and medium).

3.50 The results of the post-Scheme modelling can be summarised as follows:

- on a central (expected) basis, own funds (of circa $50 million) reduce very slightly (by circa ½%) primarily because of the effect on reinsurance bad debt associated with the NICO Agreement;
- on an OECA basis, surplus own funds (i.e. own funds above the OECA) reduce by around 10%, again primarily because of higher bad debt risk due associated with the increased modelled reserving risk (to ultimate on a 1-in-40 basis) for the Transferring Business (dominated by asbestos liabilities) as it is longer tailed than Transfercom book overall, and as such is more exposed to increasing (but still low) possibilities of a NICO default at longer durations; and
- on a standard formula SCR basis, surplus own funds (i.e. own funds above the SCR) reduce by around 5%, primarily because of the increase in 'best estimate' net claim reserve (excluding the funds withheld for the Fortress Re book) which increases the reserving risk element of the SCR (on a 1-in-200 basis over a one-year time horizon), which in turn increases the risk margin.

3.51 As expected, the assumption of the Transferring Business by Transfercom as a result of the Scheme does reduce the (modelled) own funds of the company. However, in the context of own funds of circa $50 million, the existing policyholders of Transfercom (and the policyholders of the Transferring Business) enjoy the security of a very well-capitalised company on both OECA and standard formula SCR bases.

Conclusion with regard to the pre-and post-Scheme Solvency II Own Funds of Transfercom

3.52 ***I am satisfied that the Own Funds of Transfercom currently afford the policyholders of the company a level of security under Solvency II consistent with my definition of a very well-capitalised company. I am further satisfied that the level of Own Funds will continue***

to afford the policyholders of Transfercom a level of Security consistent with my definition of a very well capitalised company after the implementation of the Scheme and that such a level of security is projected to continue in the near future.

3.53 ***Furthermore, my review of the capital requirements under Solvency II, as described above, has not given me reason to change any of the conclusions I set out in the Report in relation to reserve strength and excess assets of Transfercom***.

4 Changes in Operational Plans

4.1 I have asked the management of both SJNKI and Transfercom to provide me with details of any changes to their operational plans (other than those relating to Solvency II, which I comment upon elsewhere in the Supplemental Report) that I was not aware of at the time of writing the Report, and I confirm that the management of both SJNKI and Transfercom have provided me with the details of such changes since the writing of the Report.

Transfercom

4.2 I am informed by Transfercom that:

(a) there is currently a discussion being had within the Berkshire Hathaway Group for Transfercom to have an intermediate non-US parent company between itself and NICO. This will have no impact on the company's operational activities, the intention being to create a non-US (anticipated to be a UK) holding company which holds some of the Berkshire Hathaway Group's UK run-off insurance companies, of which Transfercom will be one of several. This project is in its early stages and will require regulatory approval before any change of control becomes effective; and

(b) as part of a wider Berkshire Hathaway Group restructuring and consolidation, once the non-US intermediary holding company has been created and intermediate ownership has changed, the Berkshire Hathaway Group is also considering the consolidation of the group's UK run-off companies into two or three. This consolidation will be effected through one or several Part VII transfers involving some or all of the following companies: Transfercom Limited, Tenecom Limited, NRG Victory Reinsurance Limited, The Scottish Lion Insurance Company Limited, Kyoei Fire & Marine Insurance Co (UK) Limited and BA (GI) Limited. However, as any Part VII transfer(s) will require regulatory approval and the sanction of the Court, such transfer(s) would not be undertaken to the detriment of the policyholders of Transfercom.

4.3 Other than the operational changes referred to in paragraph 4.2(b) above (on which I am not opining as to whether the transferring policyholders would be adversely affected) there are no other developments to the operational plans of Transfercom (of which I have been informed by the company) that would cause me to amend the conclusions I set out in the Report. Furthermore, I have been informed by the management of NICO that there are no relevant operational plan changes that would materially affect the solvency position of NICO.

SJNKI

4.4 There are no developments to the operational plans of SJNKI or the UK Branch (of which I have been informed by the company) that would cause me to amend the conclusions I set out in the Report.

5 Other matters

Solvency II

5.1 The Solvency II regime became effective as of 1 January 2016. As such UK insurance entities operating from that time need to be compliant with the requirements of Solvency II.

Transfercom

5.2 The main aspects of Transfercom's compliance with the requirements of Solvency II can be summarised as follows:

- Pillar 1 – Transfercom is managing the company's capital relative to both OECA and standard formula SCR measures. In relation to the latter, I am informed that the PRA has not objected to the company's assessment that the Standard Formula is appropriate for establishing the SCR. As detailed in the Report, I reviewed Transfercom's analysis of the appropriateness of the standard formula to its business and concluded that its assessment that the standard formula is appropriate to be reasonable. My conclusion in this regard is unchanged. As noted in Section 3 above, Transfercom also considers its capital requirements relative to a 97.5% to ultimate confidence level (as compared to the 99.5% over one year confidence level for the SCR). Whilst this produces a greater capital requirement, Transfercom is nevertheless also very well capitalised relative to this measure over the projection period considered in the ORSA.

- Pillar 2 – systems of governance are in place, including the establishment of dedicated roles for the internal auditor, actuary, and risk officer. A new risk management system has been implemented and is operational, and has the functionality to be extended in order to react to changing circumstances. An ORSA report was produced in 2015 (the quantitative aspects of which are discussed in Section 3) and approved by the Board; it was provided to the PRA in October 2015.

- Pillar 3 – a dry run of the QRT's for year-end 2014 was undertaken. This has been reviewed internally and passed as appropriate. Transfercom has applied for and been granted exemption from quarterly submissions. The first material narrative submission is the Solvency Financial Condition Report, but this is not required until early 2017.

5.3 Under Solvency II insurers must invest assets according the Prudent Person Principle. Transfercom has confirmed to me that it invests in accordance with the Prudent Person Principle. Transfercom adopts a conservative investment strategy – the majority of its investible assets are held in US Treasury bills with a small portion held as cash. This ensures that Transfercom has no material exposure to market, liquidity or cash-flow risks.

5.4 Under Solvency II insurers should also develop a medium-term capital management plan. Transfercom manages its capital with the intention of meeting regulatory solvency requirements. It does not plan any capital distribution at present and additional capital is only anticipated to be sought in the event of additional underwriting (e.g. taking on a new book of run-off business). Transfercom does not believe that the implementation of the Scheme will have a material impact on its capital position and this is borne out in the capital projections in the ORSA as discussed in Section 3 above.

5.5 I have therefore formed the view that Transfercom's compliance in relation to Solvency II is satisfactory and does not impact in any material way on my conclusions regarding its ability to meet the claims of the policyholders of Transfercom (including the Transferring Policyholders post-Scheme) as they fall due.

The UK Branch (of SJNKI)

5.6 As the timing and success of the Scheme is uncertain, as part of its contingency planning, the UK Branch plans to hold (as required) sufficient capital to meet the capital requirements under Pillar 1 of Solvency II: (a) in respect of the Transferring Business, at all times up to the Effective Date, i.e. at all times until the Scheme has taken effect; and (b) thereafter to meet the residual capital requirements until the cancellation of SJNKI's Part 4A permission.

5.7 SJNKI's core Solvency II assumption is that while Solvency II does apply to the UK Branch the period of application will be short (i.e. from 1 January 2016 to the Effective Date) and that during this period the UK Branch would meet the requirements of Pillar 1 as outlined in 5.8 paragraph below.

5.8 The capital position of the UK Branch in relation to Solvency II (as outlined in Section 3) indicates that the UK Branch is satisfying the Pillar 1 requirements of Solvency II and is forecast to be in this position for each year through to 2018 (the final year of the projection period). It is therefore anticipated that the UK Branch will satisfy the Pillar 1 requirements of Solvency II on the Effective Date (expected to be 28 February 2016).

5.9 In addition, the UK Branch has prepared an ORSA report for 2015 (the quantitative aspects of which are discussed in Section 3). The ORSA report also includes qualitative elements in relation to the management for the UK Branch under Solvency II. In particular it covers the UK Branch's risk profile and risk appetite; and governance and risk management.

5.10 The risk profile of the UK Branch is primarily driven by reserve risk, and to a lesser extent by market risk and operational risk.

5.11 The main objective of the UK Branch is the efficient run-off of the liabilities, which are dominated by long-tail asbestos claims. There is therefore the risk that there will be gross reserve deteriorations (not mitigated by outwards reinsurance as the UK Branch has no reinsurance protections). Should such gross reserve deteriorations manifest themselves they would, in the first instance, be met from the UK Branch's own funds. However, if this were to lead to regulatory capital shortfalls the UK Branch would seek (and expect to receive) financial support from SJNKI (generally).

5.12 Notwithstanding the chain of financial support as outlined in paragraph 5.11 above, the short-term position for the UK Branch (i.e. over 2016) is that little or no volatility is anticipated in relation to the gross held reserves. Accordingly, the reserve risk associated with the liabilities of the UK Branch is not considered material between 1 January 2016 and the Effective Date.

5.13 Market risk is predominantly driven by a currency mismatch between assets and liabilities, which the UK Branch is presently comfortable to accept, noting that the capital held is more than sufficient to cover a 1-in-200 currency risk event (as per the standard formula). The assets actually held by the UK Branch are very low risk investments (£50m in UK government bonds and around £2.5m in cash). Furthermore, as noted in paragraph 3.18 above, claims are currently paid out of a US dollar fund deposited by SJNKI with the Berkshire Hathaway Group. Taking these factors into account, the UK Branch's investments would appear to satisfy the Prudent Person Principle.

5.14 Operational risk is not considered by the UK Branch to be material and arises mainly from legacy data issues (e.g. incomplete records) and reliance on Resolute to provide appropriate (out-sourced) claims management services.

5.15 I have thought through the risk profile of the UK Branch and am satisfied that the key risks have been identified and have been assessed appropriately.

5.16 The UK Branch operates an internal risk management framework to manage the risks associated with the run-off of the business and the operation of the Framework Agreement. The UK Branch general manager is responsible for risk management and reports directly to SJNKI (at the Board level) in Tokyo. In addition, external consultants provide support on an ‘as needed’ basis.

5.17 I am satisfied that the UK Branch’s governance, systems and controls are proportionate to the risks associated with the nature of its run-off operations and out-sourced claims management (with Resolute).

5.18 I have therefore formed the view that the UK Branch’s governance and risk management is satisfactory (and proportionate), and that combined with own funds (that are anticipated to satisfy the Pillar 1 requirements of Solvency II through to the Effective Date) does not impact in any material way on my conclusions regarding the UK Branch’s ability to meet the claims of the policyholders of the UK Branch (pre-Scheme) as they fall due.

Policyholder Notification

5.19 I am informed that the notification policy has been carried out in accordance with the proposals put forward at the directions hearing for the Scheme. I have reviewed the First Witness Statement of Debbie Sweet and the Second Witness Statement of Hiroyuki Yamazaki, which evidence that mailings to policyholders and brokers were carried out as intended. I have further reviewed the draft Third Witness Statement of Hiroyuki Yamazaki (Witness Statement of Compliance) which further evidences that newspaper advertisements were also carried out as proposed and as directed.

5.20 I am informed by SJNKI and Transfercom that no objections to the Scheme have been received from policyholders or other parties at the date of this Supplemental Report. Both companies have kept a log of enquiries made by policyholders and other parties about the Scheme, and I have been provided with copies of these.

5.21 As at the date of the latest logs (provided to me on 4 February 2016) there had been nine responses, comprising:

- eight general enquiries (e.g. requesting details of the transferring policies which relate to the requesting party) for which no material concerns have been raised about the Scheme; and
- one notice informing SJNKI that the policyholder has ceased to exist.

5.22 Based on there being no objections to the Scheme (at the date of this Supplemental Report) and my review of the enquiries and related responses from SJNKI and Transfercom, I have no reason to change any of the conclusions I set out in the Report.

6 Expert Opinion

Confirmation of Opinion

6.1 I have further considered the effect of the proposed Scheme on the transferring policyholders of SJNKI, the existing policyholders of Transfercom, and on the existing non-transferring policyholders of SJNKI. I confirm that my overall opinion and conclusions as set out in Section 11 of the Report are unchanged.

6.2 In reaching this opinion I have complied in all material respects with the principles of the Transformations TAS.

Duty to the Court

6.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty.

Statement of Truth

6.4 I confirm that, insofar as the facts stated in my aggregate report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Gary G Wells
Fellow of the Institute and Faculty of Actuaries
Fellow of the Society of Actuaries in Ireland
Independent Expert

Milliman LLP
11 Old Jewry
London
EC2R 8DU

12 February 2016

APPENDIX A DATA AND OTHER INFORMATION CONSIDERED

A.1 I have used the following additional documents, reports, data and other information provided by SJNKI and/or Transfercom:

- Management accounts for Transfercom for the 9 months to 30 September 2015.
- Management accounts for SJNKI for the 6 months to 30 September 2015.
- NICO's NAIC Statement as at 30 September 2015.
- A spreadsheet showing the net incurred development on the claims of the Transferring Business to 30 September 2015.
- Draft results from an external actuarial review undertaken by Towers Watson on the reserve requirements of SJNKI as at 31 December 2012.
- Documents setting out pre- and post-Scheme positions for Transfercom (as at 30 September 2015).
- A copy of the final version of Transfercom's 2015 ORSA document.
- A copy of the UK Branch's 2015 ORSA document.
- A copy of the external consultants' actuarial report as at 30 September 2015, covering Technical Provisions, Solvency Capital Requirements and the ICA for the UK Branch (of SJNKI).
- A copy of the log spreadsheet maintained by Transfercom and SJNKI (dated 17 December 2015), detailing enquiries from policyholders and others about the Scheme.

A.2 Information was also gathered in telephone conversations and e-mail correspondence with staff of Transfercom and SJNKI.

APPENDIX B LETTERS OF REPRESENTATION

The letters of representation from SJNKI and Transfercom follow.

Sompo Japan Nipponkoa

Sompo Japan Nipponkoa Insurance Inc.
1st Floor, 6 Devonshire Square, London, EC2M 4YE, U.K.
Tel: 020-7628-9599 Fax: 020-7628-9323 / 8717

Gary Wells Esq
Milliman LLP
11 Old Jewry
London
EC2R 8DU

12 February 2016

Dear Mr Wells,

Letter of Representation – Sompo Japan Nipponkoa Insurance Inc. (UK Branch)/Transfercom Limited Part VII transfer

1. Introduction

We refer to the proposed insurance business transfer (the "Scheme") by which the UK branch business of Sompo Japan Nipponkoa Insurance Inc. (the "Transferor") will transfer to Transfercom Limited (the "Transferee"), pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

2. Data Accuracy Statement

We hereby affirm that the data and information provided to Gary Wells of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by the Transferor (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete.

3. Other Statements

1. To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the Transferor's business and practices (including details of specific contracts and claims) or in any statements attributed (directly or indirectly) to the Sompo Japan Nipponkoa Insurance Group in the Independent Expert's Report dated 28 October 2015 and the Independent Expert's Supplemental Report dated 12 February 2016 (together the "Reports") on the proposed Scheme.
2. We have disclosed all the information that in our opinion is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.
3. We can confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
4. We will keep the Independent Expert apprised up to the date of the Court hearing to sanction the Scheme of all matters and issues, which, in our opinion may be relevant to the Independent Expert in opining on the proposed Scheme.
5. We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

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(Incorporated in Japan) Head Office: 26 - 1, Nishi-Shinjuku, 1-Chrome, Shinjuku-Ku, Tokyo Japan

Sompo Japan Nipponkoa

Sompo Japan Nipponkoa Insurance Inc.
1st Floor, 6 Devonshire Square, London, EC2M 4YE, U.K.
Tel: 020-7628-9599 Fax: 020-7628-9323 / 8717

6. In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
   - The financial position as stated in the unaudited balance sheets of the Transferor as at 30 September 2015 gives a true and fair view of the Transferor's affairs at that date;
   - The Technical Provisions of the Transferor's business to be transferred as stated as at 30 September 2015 are a true and fair view of the liabilities at that date;
   - Other financial projections which the Independent Expert has used to prepare the Reports have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
   - The management and administration of the business affected by the Scheme will remain substantially unchanged following the implementation of the Scheme; and
   - It is not planned that there will be an extraction of capital or increase in liability or risk exposure as a consequence of the Scheme that would not have occurred were the Scheme not to proceed.
7. We confirm that the capital assessments as contained in the Transferor's 2015 ORSA report continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
8. We confirm that there are currently no plans to materially change:
   - the reserving basis/approach and strength of reserves carried/booked by the Transferor; and/or
   - the capital basis/approach and capital strength adopted by the Transferor.
9. We confirm that there is currently no other relevant information concerning the business written, claims procedures and processing situation which could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
   - there were no unusual backlogs of unprocessed claims correspondence at 30 September 2015; and
   - appropriate case estimates were applied to all reported claims which remained open at 30 September 2015.
10. We confirm that the proposed Scheme is not expected to have tax implications that would affect any policyholders impacted by the Scheme.
11. To the best of our knowledge and belief, there have been no material changes since 30 September 2015 to the Transferor's operational plans that have not been communicated to the Independent Expert.
12. We confirm that there have been no material events which are relevant to the Scheme between 30 September 2015 and the date of this letter.

Yours sincerely,

H. Yamazaki

Hiroyuki Yamazaki
Chief Executive
Sompo Japan Nipponkoa Insurance Inc. (UK Branch)

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(Incorporated in Japan) Head Office: 26 - 1, Nishi-Shinjuku, 1-Chrome, Shinjuku-Ku, Tokyo Japan

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Gary Wells Esq
Milliman LLP
11 Old Jewry
London
EC2R 8DU

12 February 2016

Dear Mr Wells,

Letter of Representation – Sompo Japan Nipponkoa Insurance Inc. (UK Branch)/Transfercom Limited Part VII transfer

1. Introduction

We refer to the proposed insurance business transfer (the "Scheme") by which the UK branch business of Sompo Japan Nipponkoa Insurance Inc. (the "Transferor") will transfer to Transfercom Limited (the "Transferee"), pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

2. Data Accuracy Statement

We hereby affirm that the data and information provided to Gary Wells of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by the Transferee (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete.

3. Other Statements

1. To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the Transferee's business and practices (including details of specific contracts and claims) or in any statements attributed (directly or indirectly) to the Berkshire Hathaway Group in the Independent Expert's Report dated 28 October 2015 and the Independent Expert's Supplemental Report dated 12 February 2016 (together the "Reports") on the proposed Scheme.
2. We have disclosed all the information that in our opinion is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.
3. We can confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
4. We will keep the Independent Expert apprised up to the date of the Court hearing to sanction the Scheme of all matters and issues, which, in our opinion may be relevant to the Independent Expert in opining on the proposed Scheme.
5. We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

6. In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
   - The financial position as stated in the unaudited management accounts of the Transferee as at 30 September 2015 gives a true and fair view of the Transferee's affairs at that date;
   - The Technical Provisions of the Transferee's business as stated as at 30 September 2015 are a true and fair view of the liabilities at that date;
   - Other financial projections which the Independent Expert has used to prepare the Reports have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
   - The management and administration of the business affected by the Scheme will remain substantially unchanged following the implementation of the Scheme; and
   - It is not planned that there will be an extraction of capital or increase in liability or risk exposure as a consequence of the Scheme that would not have occurred were the Scheme not to proceed.
7. We confirm that the capital assessments as contained in the Transferee's 2015 ORSA report continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
8. We confirm that there are currently no plans to materially change:
   - the reserving basis/approach and strength of reserves carried/booked by the Transferee; and/or
   - the capital basis/approach and capital strength adopted by the Transferee.
9. We confirm that there is currently no other relevant information concerning the business written, claims procedures and processing situation which could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
   - there were no unusual backlogs of unprocessed claims correspondence at 30 September 2015; and
   - appropriate case estimates were applied to all reported claims which remained open at 30 September 2015.
10. We confirm that the proposed Scheme is not expected to have tax implications that would affect any policyholders impacted by the Scheme.
11. To the best of our knowledge and belief, there have been no material changes since 30 September 2015 to the Transferee's operational plans that have not been communicated to the Independent Expert.
12. We confirm that there have been no material events which are relevant to the Scheme between 30 September 2015 and the date of this letter.

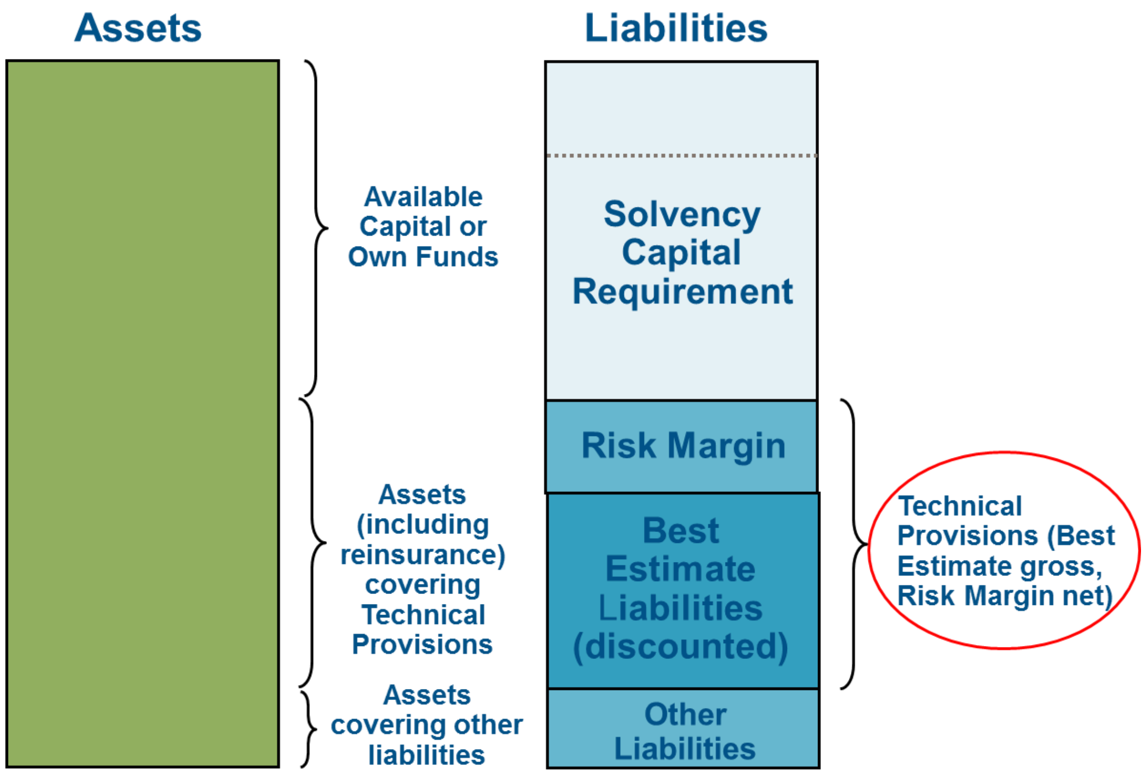
Yours sincerely,

Andrew Wilson
Director
Transfercom Limited

APPENDIX C SOLVENCY II BALANCE SHEET

C.1 A simplified illustration of a Solvency II balance sheet is shown in Figure C.1 below.

Figure C.1



C.2 The Solvency II balance sheet is intended to be a tool for management to assess an entity's solvency and hence an important consideration for significant decisions. It is also a tool for regulators to assess the solvency of an insurer.

C.3 A key consideration for management in making significant decisions will be the excess of assets over Technical Provisions, other liabilities and the Solvency Capital Requirement (SCR). This excess of Own Funds over the SCR will determine whether the entity can expand existing business, move in to new areas, undertake mergers/acquisitions (with less capital rich entities) etc. or whether they need to consider reducing business volumes, moving out of capital intensive lines of business, purchasing additional reinsurance and so on. The level of Own Funds will also likely impact the credit rating of an entity.

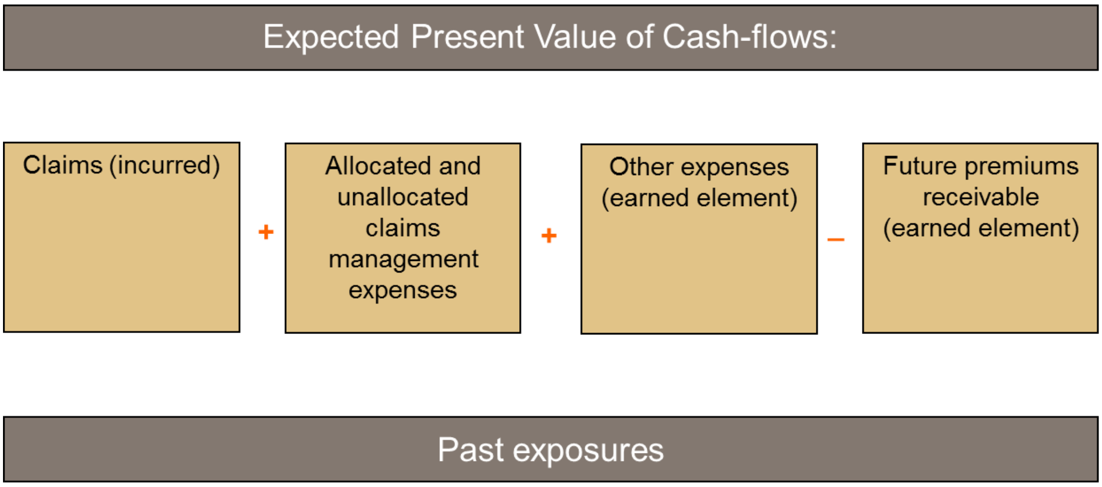
C.4 The Technical Provisions are a direct input to the balance sheet, and are therefore a fundamental input in to the SCR calculation that models the potential movement in the balance sheet over a one year time horizon.

C.5 Solvency II requires the Technical Provisions (as at the valuation date) to be determined using a market consistent valuation of the liabilities relating to insurance contract. In practice, a market consistent liability valuation cannot be calculated by reference to market prices, because such prices are not (for practical purposes) available. Therefore Technical Provisions are presently estimated on a proxy to a market value basis, i.e. a ‘best estimate’ of the liabilities relating to insurance contracts allowing (i.e. discounting) for the time value of money supplemented by a risk margin. More specifically the Technical Provisions are made up as follows:

Claims provision + Premium provision + Risk margin

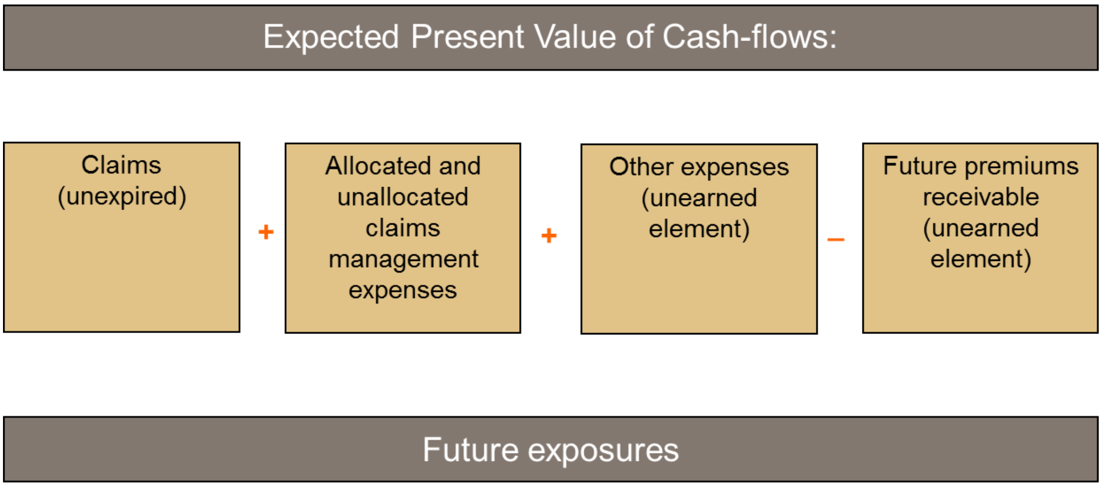
C.6 The claims provision is the expected present value/discounted ‘best estimate’ of all future cash-flows (claim payments, expenses and future premiums due) relating to claim events prior to the valuation date. Figure C.2 below illustrates the components of the claims provision calculation.

Figure C.2 – Claim Provision



C.7 The premium provision is the expected present value/discounted ‘best estimate’ of all future cash-flows (claim payments, expenses and future premiums due) relating to future exposures arising from policies that the insurer is obligated to at the valuation date. Figure C.3 below illustrates the components of the premium provision calculation.

Figure C.3 – Premium Provision



C.8 The risk margin ('RM') is intended to be the balance that another (re)insurer taking on the liabilities at the valuation date would require over and above the discounted 'best estimate'. Under Solvency II, the RM is calculated using a cost-of-capital ('CoC') approach (presently employing a 6% CoC parameter as provided by EIOPA). More specifically, the calculation is as follows:

$$RM = CoC \times \sum_{t \geq 0} \frac{SCR(t)}{(1 + r_{t+1})^{t+1}}$$

where:

SCR(t) as employed for the RM formula consists of Underwriting risk (with respect to existing business); Counterparty risk (e.g. reinsurance); Operational risk; and Market risk (if unavoidable, i.e. not hedge-able); and

r_t is the risk-free discount rate(s) at time t as provided by EIOPA for all major currencies.