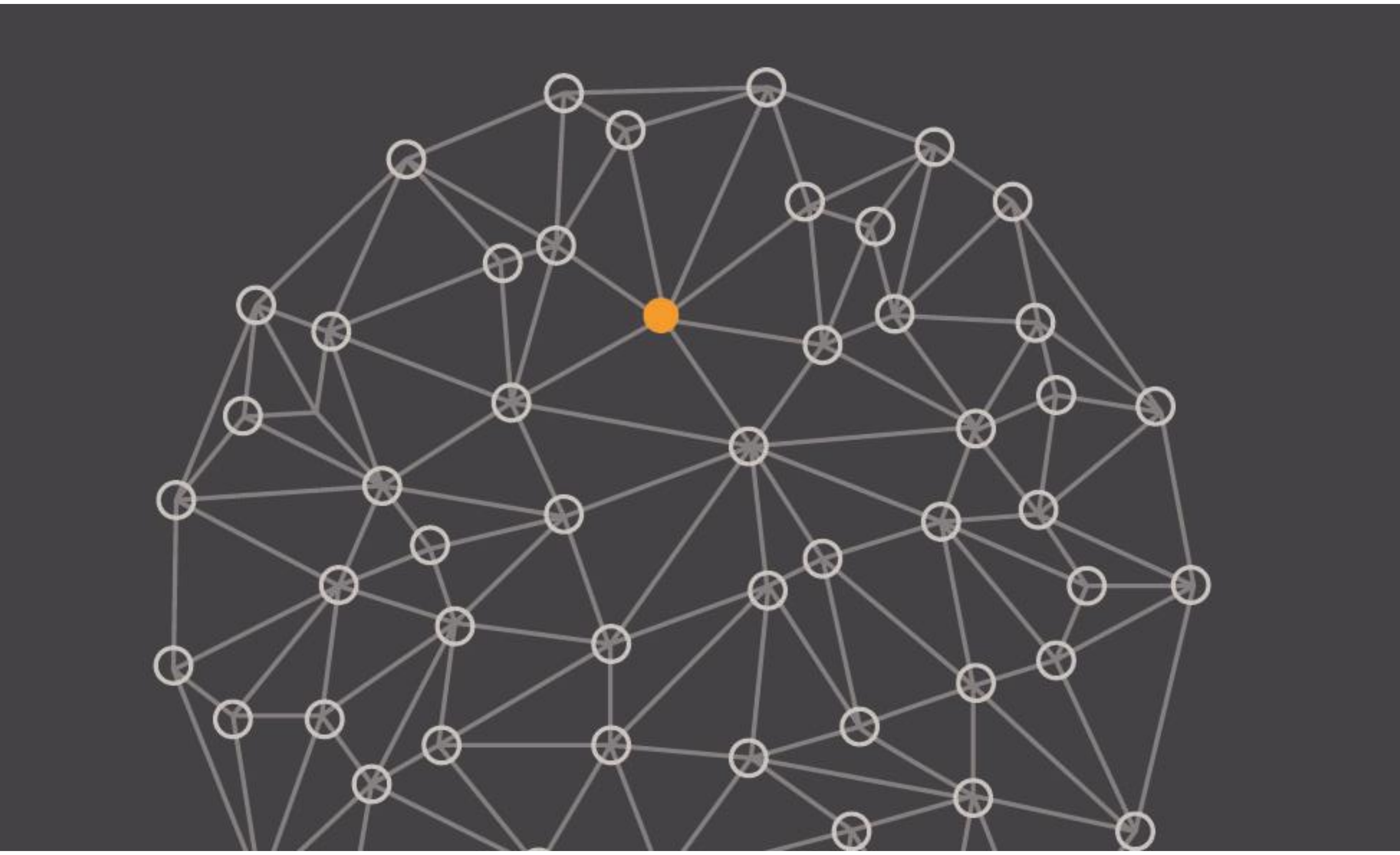
MILLIMAN REPORT SUMMARY

Summary of the Report of the Independent Expert on the proposed transfer of business from the London Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd. to NRG Victory Reinsurance Limited for the High Court of England and Wales

04 April 2022

Christopher Clarke, FIA



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1. About the Independent Expert's Report and this Summary

1.1 I, Christopher Clarke, am a Principal of Milliman LLP and a Fellow of the Institute and Faculty of Actuaries. I have been appointed as the independent expert to provide, in accordance with Part VII of the Financial Services and Markets Act 2000 ("**FSMA**"), a report (the "**Scheme Report**") on the potential impact of the proposed transfer (the "**Scheme**") on the policyholders of Tokio Marine & Nichido Fire Insurance Co., Ltd. ("**TMNF**") and of NRG Victory Reinsurance Limited ("**NRG**"). The Scheme Report is intended to assist the Court in assessing the likely effect of the proposed transfer on all affected policyholders, in particular to comment on possible materially adverse impacts in respect of the security of their benefits under their policies and the levels of service that they could expect to receive after the transfer.

1.2 In the Scheme Report, I comment only on the Scheme as presented and do not consider any possible alterations or alternative arrangements.

1.3 This is a summary (the "**Summary**") of the Scheme Report, dated 4 April 2022. The Summary is subject to the same limitations on its use as those set out in the Scheme Report. The Scheme Report contains the reasoning behind my conclusions, much of the detail of which I have omitted from this Summary. The Scheme Report also includes further information regarding TMNF and NRG (the "**Companies**"), which I have also not included within this Summary. While I am satisfied that this Summary provides an appropriate synopsis of the Scheme Report, reliance on this Summary alone could be misleading. Copies of the Scheme Report and any subsequent update can be obtained on the webpage dedicated to the Scheme that will be hosted by TMNF on its website (the "**Transfer Webpage**").

1.4 A document containing a description of the proposed Scheme is also available on the Transfer Webpage. Therefore, I have not included further description of the proposed Scheme within this Summary. Furthermore, by way of background, the Scheme Report includes material regarding the insurance regulatory environment in the UK and in Japan. Again, I have not included that material within this Summary, which instead focuses on what I perceive to be the likely effect of the proposed Scheme on the security and service levels provided to policyholders of TMNF and of NRG.

2. Who will be affected by the Scheme?

2.1 I have determined that the following policyholder groups might be affected by the proposed Scheme:

- those policyholders of TMNF with policies that will be transferring to NRG under the Scheme (the "**Transferring Policyholders**");
- the current policyholders of TMNF whose policies will not be transferred under the Scheme (the "**TMNF Non-Transferring Policyholders**"), including any **"Excluded Policies"** (policies that the Court determines shall not be transferred under the Scheme); and
- the current policyholders of NRG.

2.2 I have assessed the circumstances, security and levels of service, separately for each of the groups of policyholders identified in paragraph 2.1 above, and have then similarly considered the changes that the Scheme is likely to cause to those circumstances, security and levels of service. I do not believe that policyholders of any other insurance companies would be affected by the proposed Scheme.

3. Will the Scheme affect the Transferring Policyholders?

SECURITY OF BENEFITS

3.1 The Scheme will result in no changes to the terms and conditions of any policy being transferred by the Scheme (the "**Transferring Policies**"). The rights and obligations of TMNF under the Transferring Policies will be transferred, without alteration, to NRG.

3.2 I have reviewed the financial strength currently provided to the policyholders of the Transferring Policies (the **"Transferring Policyholders"**) by TMNF. I note that, whilst the Transferring Policyholders are policyholders of the London Branch of TMNF, the London Branch is not a distinct legal entity, and so I have considered the financial strength of TMNF generally rather than the London Branch in isolation. Based on my review of TMNF's audited accounts and regulatory capital as at 31 March 2021, I have concluded that it was a very well-capitalised[1] company as at that date. Whilst there are differences between the regulatory capital regimes in Japan and UK that prevent direct comparisons, based on information available to me, I believe it is reasonable to assume that, when comparing the financial strength of TMNF pre-Scheme to that of NRG post-Scheme, TMNF would also be a very well-capitalised company under the UK solvency regime.

3.3 I have also reviewed the financial strength of NRG, pre-Scheme, based on a review of its audited financial statements as at 31 December 2020, as well as updated financial information, including its regulatory Solvency Capital Requirement (**"SCR"**) calculation, as at 30 June 2021. Based on this, I have concluded that, as at 30 June 2021, NRG was also a very well-capitalised company.

3.4 I then considered the impact of the Scheme on the financial strength of NRG. The Transferring Policies currently benefit from a 100% reinsurance provided by National Indemnity Company (**"NICO"**). Under this contract (the **"Reinsurance Agreement"**) NICO pays all the claims of the Transferring Policies, up to a certain limit. The benefit of the Reinsurance Agreement will pass from TMNF to NRG under the Scheme. Although the Scheme will result in a significant increase in the gross liabilities of NRG, the existence of the Reinsurance Agreement means that the net of reinsurance liabilities will not increase significantly as a result of the Scheme. The Scheme will result in a small reduction in NRG's Capital Cover Ratio relative to its SCR as its SCR will increase as a result of the additional risks associated with the Transferring Policies (in particular the risk of the limit of the Reinsurance Agreement being exhausted, or of NICO defaulting), but these risks are modest and NRG will remain a very well-capitalised company post-Scheme.

3.5 Relative to regulatory capital requirements, I concluded that the Transferring Policies would be no worse-off as a result of the Scheme (i.e. they would move from one very well-capitalised company to another). However, given the differences in size and risk exposures between the two companies (i.e. TMNF is a very large company whose other exposures are very different to those of its London Branch, whereas NRG is a relatively smaller company whose existing exposures are of a similar type to those of the London Branch), I considered the results of some scenario tests to see whether, post-Scheme, NRG would be able to withstand adverse circumstances that TMNF, given its size, would be able withstand pre-Scheme. In each scenario, including those that considered an extreme increase in NRG's liabilities, NRG continued to meet its SCR to the extent that it could be considered a well-capitalised company.

3.6 I therefore concluded that the Transferring Policyholders will not be materially adversely affected due to relative differences in the financial strength of NRG post-Scheme to that of TMNF pre-Scheme.

RISK PROFILE

3.7 As noted above, if the Scheme is sanctioned, the Transferring Policyholders will move from a large, well-diversified insurer whose liabilities are mainly quite different to those of the Transferring Policies, to a smaller insurer whose portfolio is more concentrated and includes a significant amount of business that is of a similar type to the Transferring Policies. I concluded that, although the proposed Scheme will lead to some changes to the risk exposures of the Transferring Policies, this will not have a materially adverse impact on the security of the Transferring Policyholders' benefits, for the following reasons:

- In practice, both pre- and post-Scheme the liabilities of the Transferring Policies are paid by NICO, which is a very large and financially strong insurer and the Transferring Policyholders' exposure to the risks of NICO will not change as a result of the Scheme.
- In the event that the NICO reinsurance fails, or is exhausted, the Transferring Policyholders would become more materially exposed to the other risks of NRG. However, although the Transferring Policyholders would be adversely affected in those scenarios, even in the most extreme of the scenario tests considered (which would lead to the Reinsurance Agreement being exhausted), I would expect NRG to still be a well-capitalised company relative to its SCR.

[1] *In this Summary, I have defined the following terms:*
- *"sufficiently capitalised" denotes a Capital Cover Ratio between 100% and 119%;*
- *"more than sufficiently capitalised" denotes a Capital Cover Ratio between 120% and 149%;*
- *"well-capitalised" denotes a Capital Cover Ratio between 150% and 199%, and*
- *"very well-capitalised" denotes a Capital Cover Ratio in excess of 200%.*

- As discussed below, the claims will continue to be handled by the same entities post-Scheme as pre-Scheme so there is no reason to think that any change in risk exposures would adversely affect service levels.

POLICY SERVICING

3.8 The administration of the Transferring Policies will be essentially unchanged as a result of the Scheme. Pursuant to the terms of the Reinsurance Agreement, claims arising from the Transferring Policies are currently administered by Resolute Management, Inc. (**"RMI"**) and Resolute Management Services Limited (**"RMSL"**), which are affiliate companies of NRG. RMI and RMSL will continue to handle the claims post-Scheme and there will be no change to claims systems or processes. The management of NRG has confirmed to me that there is no intention to change the approach to claims handling after the implementation of the Scheme.

CONCLUSION

3.9 I am satisfied that the Scheme will not affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders.

4. Will the Scheme affect the TMNF Non-Transferring Policyholders?

4.1 Post-Scheme, the position of the TMNF Non-Transferring Policyholders will be very little changed from that before the Effective Date. The liabilities of the Transferring Policies represent only a very small part of the existing gross reserves of TMNF, and nil on a net of reinsurance basis. The implementation of the Scheme will lead to TMNF paying a $10 million fee to NRG, but this amount is very small in relation to the overall assets of TMNF. The TMNF Non-Transferring Policyholders will therefore experience essentially no change in financial strength as a result of the Scheme. There will also be no changes to the policy administration of the TMNF Non-Transferring Policyholders as a result of the Scheme.

4.2 If there are any Excluded Policies post the Effective Date (there are not currently expected to be any) then these will remain in TMNF. Although they will no longer be reinsured under the Reinsurance Agreement (as the benefit of that would have transferred to NRG), they will benefit from an indemnity provided by NRG (and guaranteed by NICO), and the policies would continue to be administered in the same way as currently. As such, the position of any Excluded Policies would be very similar to that before the Scheme.

CONCLUSION

4.3 I am satisfied that the Scheme will not affect in a materially adverse way either the security or the standards of policy servicing currently enjoyed by the TMNF Non-Transferring Policyholders, and by any holders of policies that become Excluded Policies.

5. Will the Scheme affect the existing policyholders of NRG?

SECURITY OF BENEFITS

5.1 As noted above, I concluded that the existing NRG policyholders currently benefit from the financial strength provided by a very well-capitalised company. NRG's estimates of its Capital Cover Ratios (relative to both its SCR and its own internal assessment of the capital needs), assuming the successful completion of the Scheme, suggest that NRG will continue to be a very well-capitalised company post-Scheme, although its Capital Cover Ratios will be slightly reduced. Given that the expected reductions in Capital Cover Ratios are only slight, and that the Capital Cover Ratios will still be very high (i.e. significantly above the threshold for a very well-capitalised company), I do not regard these reductions in Capital Cover Ratios to be materially adverse to the existing NRG policyholders. Furthermore, the scenario tests undertaken have illustrated that, even with the additional risks associated with the business of the Transferring Policies (the **"Transferring Business"**), NRG's financial position is robust enough to withstand remote outcomes and still meet its capital requirements.

RISK PROFILE

5.2 Post-Scheme, the existing policyholders of NRG will become exposed to the risks of the Transferring Business. The gross liabilities of the Transferring Business are predominantly US APH claims. US APH claims already make-up around 20% of the existing NRG portfolio, and APH claims more generally about 60% of the portfolio. After the Scheme is implemented, NRG's gross liabilities will be more concentrated in APH claims, with claims from the US becoming predominant.

5.3 As the Transferring Business is reinsured into NICO, the existing policyholders will become exposed to counterparty default risk with NICO. However, as NICO is large and financially strong, the counterparty risk associated with the reinsurance is slight.

5.4 The Scheme will make the gross liabilities of NRG more concentrated in APH exposures, albeit that NRG is currently already heavily exposed to APH claims. This reduced diversification does potentially leave the NRG policyholders more exposed were the gross APH reserves to deteriorate materially. However, as has been shown in the scenario tests, even in the event that the gross reserves for asbestos claims needed to double, the financial resources of NRG are such that it should be still be a well-capitalised company relative to its SCR. As such, I do not believe that the changes in risk exposures resulting from the Scheme will materially adversely affect the existing policyholders.

POLICY SERVICING

5.5 The existing arrangements for servicing and administering the policies held by existing policyholders of NRG will remain unchanged post-Scheme. Likewise, the terms and conditions of the existing NRG policies will remain unaltered post-Scheme.

CONCLUSION

5.6 I am satisfied that the Scheme will not affect in a materially adverse way either the financial security or the policy servicing levels of the existing NRG policyholders.

6. Other matters

REINSURANCE

6.1 I have considered the likely effects of the Scheme on the reinsurers whose reinsurance contracts cover the Transferring Business. All reinsurance contracts benefiting the Transferring Business will continue to provide the same benefit post-Scheme as pre-Scheme, albeit as reinsurers of NRG rather than TMNF. The amount of the liabilities of each external reinsurer of the Transferring Business will not change as a result of the Scheme. Further, the Scheme will not result in any changes to the way in which recoveries under TMNF's reinsurance programmes are administered, as these are already administered by RMSL (an affiliate company of NRG) and will continue to be so post-Scheme.

6.2 I concluded that I am satisfied that the Scheme will have negligible effect on the reinsurers of TMNF whose contracts of reinsurance cover the Transferring Business.

WHAT WOULD HAPPEN WERE THE SCHEME NOT TO PROCEED?

6.3 If the Scheme cannot be completed, then, as soon as practicable, TMNF will repatriate its liabilities to its head office in Japan and apply to have its London Branch de-authorised. The Transferring Business would continue to be reinsured under the Reinsurance Agreement and its claims administered by RMSL and RMI as currently.

7. Conclusions

7.1 I confirm that I have been provided with access to all material facts of which I am aware and which I consider relevant in order to assess the proposals under the proposed Scheme, and I further confirm that all information that I have requested in relation to my review has been provided. In performing my review and in producing the Scheme Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me by the Companies. My conclusions depend on the substantial accuracy of this data, information and the underlying calculations. At the time of preparing the Scheme Report, I was unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me by the Companies. As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the proposed Scheme and in preparing the Scheme Report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the proposed Scheme.

7.2 In summary, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so:

- the Scheme will not materially adversely affect the security of benefits to policyholders of either TMNF (both those policyholders being transferred under the Scheme and those who will remain, post-Scheme, policyholders of TMNF) or NRG; and
- the Scheme will not have any impact on service standards experienced by the policyholders of either TMNF (both those policyholders being transferred under the Scheme and those who will remain, post-Scheme, policyholders of TMNF) or NRG.

8. Supplemental Report

8.1 My analysis has been based upon the material supplied to me, including balance sheet data for TMNF as at 31 March 2021 and, for NRG, as at 31 December 2020 (these dates being the most recent date for which audited financial information was available for the respective companies). As there had been some material developments for NRG since that time, I chose to use unaudited figures prepared by NRG as at 30 June 2021 as the focus of my analysis of the financial position of NRG both pre- and post-Scheme.

8.2 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplemental report (the "**Supplemental Report**"), covering any relevant matters that might have arisen since the date of the Scheme Report. This will include consideration of updates to the accounting positions. It is intended that the Supplemental Report will be published on the Transfer Webpage at least one week before the date of the final Court hearing.

Christopher Clarke
Fellow of the Institute and Faculty of Actuaries

4 April 2022