

Independent Expert Scheme Report on the Proposed Transfer of Business of Munich Reinsurance America, Inc.'s UK Branch to Great Lakes Reinsurance (UK) PLC

10 September 2008

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Purpose and use of this report

The report must be read in its entirety. Reading individual sections in isolation could be misleading.

A copy of this report will be sent to the FSA and will accompany the transfer application to the Court. It will also be available to policyholders and other members of the public as required by the relevant applicable legislation.

This report has been prepared for and addressed to the directors of Great Lakes Reinsurance (UK) PLC, Great Lakes Services Limited and Munich Reinsurance America, Inc. as a body for the purpose of producing the Independent Expert's Scheme Report in accordance with PwC's engagement letter with Great Lakes Reinsurance (UK) PLC, Great Lakes Services Limited and Munich Reinsurance America, Inc. dated 15 January 2008 (an extract of which is attached at Appendix D) and is not for the use or benefit of any other party or for any other purpose other than for the use of the court under the Financial Services and Markets Act 2000.

Neither PwC nor I accept or assume any responsibility, liability or duty of care for any use of or reliance on this report by any other person or for any other purpose, including but not limited to the consequences of any other person acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon such report.

As a condition of reading this report, the reader confirms his or her agreement to the above terms.

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10 September 2008

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Executive summary



1 Executive summary

This summary uses a number of abbreviations, which are defined in Appendix A.

1.1 The proposed Scheme

Under the proposed Scheme, all of the general insurance and reinsurance business of the UK branch of Munich Re America would be transferred to Great Lakes on the Effective Date (expected to be 31 December 2008). The Scheme would transfer all insurance liabilities of Munich Re America under the transferring policies along with all existing reinsurance policies that specifically protect the UK business and an amount of cash agreed between Munich Re America UK and Great Lakes.

If the transfer is approved, a loss portfolio transfer (“LPT”) reinsurance contract would come into effect on the Effective Date under which Munich Re would reinsure Great Lakes in respect of the transferring liabilities.

For full details of the proposed Scheme and LPT, refer to later sections of this report.

1.2 Overall conclusions

I have considered the proposed Scheme and its likely effect on the policyholders of Munich Re America and Great Lakes. I have concluded that no policyholders (or third parties who rely on their policies) would be materially adversely affected by the proposed transfer.

This report should be read in entirety for a full understanding of my conclusions. However, I outline the basis for my conclusions below, for each group of policyholders:

1.2.1 Great Lakes existing policyholders

In assessing the likely effect of the transfer on the policyholders of Great Lakes (including those who become policyholders between the date of this report and the Effective Date), the main risk to consider would ordinarily be the risk that the liabilities from the transferring policies deteriorate post-transfer to such an extent that Great Lakes’ solvency is threatened. However, Great Lakes’ purchase of LPT reinsurance from Munich Re protects Great Lakes against any future deterioration in the transferring liabilities, that is, it effectively eliminates the reserving risk arising from the transferring business. The unlimited nature of the contract means that there is no risk of the cover becoming exhausted. In addition, the contract covers expenses associated with the transferring business, including direct and indirect claims handling costs, administrative costs, the cost of holding regulatory capital and the costs of implementing the Scheme. I have also considered the terms and conditions of the LPT contract and I am satisfied that the contract includes appropriate clauses restricting Munich Re’s ability to terminate the contract or to avoid paying claims under it. Given that Munich Re is one of the world’s largest reinsurers and is rated AA- (“Very strong”) by Standard & Poor’s, I believe that the risk of default is remote.

I have concluded that the security of Great Lakes policyholders would not be materially adversely affected by the proposed transfer.

1.2.2 Transferring policyholders

In assessing the likely effect of the transfer on the transferring policyholders, the main risk to consider is the risk that Great Lakes, post-transfer, would not be financially secure.

I began my assessment by considering the strength of Great Lakes pre-transfer: I considered the Individual Capital Assessment (“ICA”) prepared by Great Lakes, including the methodology, modelling techniques and key assumptions used, and how these compare to market practice. This led me to conclude that, before the proposed transfer, the level of capital held by Great Lakes is more than sufficient to meet its obligations at the level of confidence required by the FSA.

I considered how this assessment would change post-transfer, both in terms of changes to the level of capital held and changes to the risks that Great Lakes faces. I concluded that:

- The level of capital held by Great Lakes post-transfer would not be reduced by the transfer.
- There would be no increase in the reserving risk to which Great Lakes is exposed, as any potential deterioration in the transferred liabilities would be recoverable via the LPT.
- The transfer would lead to an increase in Great Lakes' exposure to reinsurance credit risk. Given that the reinsurer is Munich Re, however, and given that Munich Re is one of the world's largest reinsurers and is rated AA- ("Very strong") by Standard & Poor's, I believe that the risk of default is remote.
- The required level of regulatory capital will increase as a result of the transfer since it includes a capital charge related to the reinsurance credit exposure. The capital held by Great Lakes will, however, remain in excess of the ICG.

Based on my assessment of the pre-transfer ICA and my assessment of the likely changes to capital and risks resulting from the proposed transfer, I am satisfied that the level of capital held by Great Lakes would be more than sufficient to meet its obligations at the level of confidence specified by the FSA for general insurance companies. Nothing emerged during the course of my work that would give me concerns as to the financial strength of Great Lakes if the Scheme were to go ahead. I have concluded that the security of the transferring policyholders would not be materially adversely affected by the proposed transfer.

1.2.3 Munich Re America remaining policyholders

The transfer will have little impact on the financial strength of Munich Re America, given the small size of the UK branch in relation to Munich Re America as a whole. I have concluded that the security of the policyholders remaining with Munich Re America would not be adversely affected by the proposed transfer.

1.2.4 Other considerations

Other considerations, including the effect of the Scheme on claims administration, are described in later sections of this report. I do not anticipate any change in the level of service to transferring policyholders as a result of the proposed Scheme.

Introduction

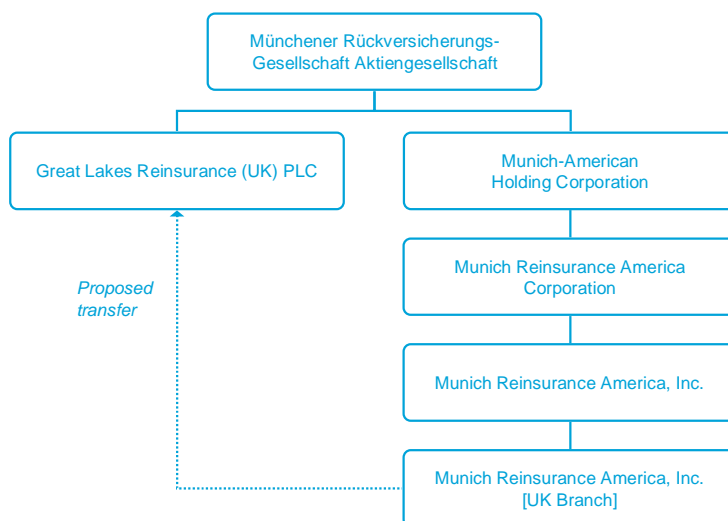


2 Introduction

2.1 Purpose of report

It is proposed that all of the general insurance and reinsurance business written by the UK branch of Munich Re America, Inc. (“Munich Re America UK”) be transferred to Great Lakes Reinsurance (UK) PLC (“Great Lakes”) by an insurance business transfer scheme (the “Scheme”) as defined in section 105 of the Financial Services and Markets Act 2000 (“FSMA”). For simplicity, any reference to general insurance in this report should be taken to include general insurance and reinsurance.

Munich Re America, Inc. (“Munich Re America”) is an indirectly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (“Munich Re”). Great Lakes is a directly owned subsidiary of Munich Re. The diagram below illustrates the relationship:



Two further Munich Re companies that are referred to in this report are Great Lakes Services Limited (“Great Lakes Services”) and Munich Re General Services Ltd (“Munich Re General Services”). Great Lakes Services is the company employing the staff who provide services to Great Lakes and is a wholly owned subsidiary of Great Lakes. Munich Re General Services is the shared services company that performs services for a number of Munich Re companies including performing claims handling services for Great Lakes.

Section 109 of FSMA requires that an application to the Court for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the scheme (a “Scheme Report”) by an independent person (the “Independent Expert”) having the skills necessary to make the report who is nominated or approved by the Financial Services Authority (“FSA”). The report is required in order that the Court may properly assess the effect of the proposed transfer, including the effect on policyholders (and third parties who rely on their policies) of the insurance companies in question. Munich Re America and Great Lakes have nominated me to act as an Independent Expert to provide this Scheme Report and the FSA has approved this nomination.

This Scheme Report describes the proposed transfer and discusses its possible effects on policyholders (and third parties who rely on their policies), including effects on security and levels of service.

A list of terms defined in this report is shown in Appendix A. Otherwise I use the same defined terms as are in the Scheme.

2.2 The proposed Scheme

The business to be transferred is all of the insurance business of Munich Re America UK. The transfer is intended to have the effect that all insurance liabilities under these policies (and appropriate assets) will pass to Great Lakes.

It is proposed that the transfer will become effective on 31 December 2008 (the "Effective Date").

If the transfer is approved, an LPT reinsurance contract will come into effect on the Effective Date, under which Munich Re will reinsure Great Lakes in respect of the transferring business. This reinsurance contract is not part of the Scheme itself but is closely related to it and I have therefore taken it into consideration in my report.

The insurance business involved, the arrangements for the transfer, the reinsurance protection and the effect of the transfer are discussed in more detail in later parts of this report.

2.3 Independent Expert

I have been nominated by Munich Re America and Great Lakes and approved by the FSA to act as the Independent Expert for the Scheme. Munich Re America and Great Lakes will be bearing the costs associated with the production of this report.

I am an experienced actuary, having practised in general insurance for more than twenty-five years. I have previously provided independent expert reports for thirteen general insurance business transfers under section 109 within Part VII of FSMA. I am a Fellow of the Institute of Actuaries. More details of my experience are attached at Appendix B.

I have no shareholding, investment or any other financial connection with Munich Re America, Great Lakes or any other company within the Munich Re Group.

I have performed work on two previous occasions for companies within the Munich Re Group. The first of these was when I acted as the Independent Expert on a scheme transferring insurance business of Munich Re America UK to Munich Re's UK General Branch, which became effective in December 2003. The second occasion was two years ago when the transfer of the remaining business of Munich Re America UK to Great Lakes was first initiated. I was engaged as Independent Expert at that time, but the project did not proceed to completion as it was not a priority within the Munich Re Group. The decision not to proceed was not influenced by my work.

Other than the two occasions detailed above, I have not performed any work for Munich Re America, Great Lakes or any other company within the Munich Re Group.

I am a director in the Actuarial and Insurance Management Solutions practice of PricewaterhouseCoopers LLP ("PwC"). PwC has performed and continues to perform other work for companies within the Munich Re Group. PwC does not, however, audit Munich Re or any of the companies involved in the transfer. PwC was recently involved in the administration of a solvent scheme of arrangement in respect of certain business of Great Lakes. I had no involvement in the scheme of arrangement, and the progress of the scheme of arrangement was unconnected to the transfer scheme. I have not been involved in any work that PwC is performing or has performed for any Munich Re Group companies other than the previous two Independent Expert roles noted above.

2.4 Scope

My report describes the proposed transfer and its likely effects on policyholders of Munich Re America and Great Lakes, including effects on security and levels of service. I have complied with the requirements of FSMA and I have addressed the areas indicated in the guidance for Scheme Reports set out by the FSA in Chapter 18 of the FSA Supervision Handbook.

My work has required consideration of certain of the liabilities of Munich Re America and Great Lakes, to the extent necessary for the purposes of describing the effect of the transfer and of showing simplified balance sheets for the companies. My assessment has been based on the audited regulatory returns of both companies as at 31 December 2007, on internal actuarial

reserve reviews conducted by Munich Re America and Great Lakes Services, on an actuarial reserve review commissioned by Great Lakes from consulting actuaries Gatenby & Brunskill Limited (“G&B”), and on other information provided by staff of Munich Re America, Munich Re and Great Lakes Services, as detailed in Appendix C.

In addition to the liabilities, I have assessed the appropriateness in nature and amount of the assets to be transferred under the Scheme, to the extent necessary to describe the effect of the transfer. I have also gained an appropriate understanding of other aspects that are relevant to the effect of the transfer on policyholders, including those relating to the financial strength of the two companies, the reinsurance protection to be provided by Munich Re, and those relating to the service arrangements for policyholders. My assessment of the financial strength of Great Lakes to the extent necessary for describing the effect of the transfer has been based on a capital assessment conducted by Great Lakes Services.

I have relied on documents described later in this report and discussions with relevant staff of Munich Re America, Munich Re and Great Lakes Services.

Where I use the terms “I” or “my” in this report in describing work that I have performed, this should be interpreted to mean I or the team working under my direct supervision. Where “I” or “my” is used in the context of an opinion, the opinion is mine.

I have not considered any alternative arrangement to the proposed transfer, because no alternative arrangement has been proposed and because I have been able to conclude that the proposed arrangement appears appropriate.

2.5 Materials considered and limitations

My work has been based on the data and other information made available to me by Munich Re America, Great Lakes Services and other Munich Re Group companies. A list of data and other information that I have considered is shown in Appendix C. I have also held discussions with relevant staff of Munich Re America, Great Lakes Services and other Munich Re Group companies.

I have conducted checks on the data provided to me for internal consistency and reasonableness. I have carried out a review of the processes used in the actuarial reserve assessments for Munich Re America UK and Great Lakes and the capital assessment for Great Lakes.

The G&B reserve review report referred to in paragraph 4.3.3. below was prepared on an agreed basis to meet the specific purposes of Great Lakes. It was not prepared on the basis that it would be used by me or any other person for the purposes of this report, or for any other purpose. G&B accept no liability, responsibility or duty of care for my use of their work or for any reliance by any third party on their work. I have performed sufficient work on the findings produced by G&B to satisfy myself that it is reasonable for me to agree that the liabilities estimated in the G&B report are adequate for the purpose of assessing the impact of the transfer on policyholders and of showing simplified balance sheets to illustrate the transfer.

In all other respects I have relied on the integrity of the information provided to me. My review of the processes used in the actuarial reserve assessments and my checks on the data for internal consistency have not revealed any reason to doubt that it would be appropriate for me to rely on the integrity of the information provided for the purpose of this report.

The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me. I understand that the witness statements to be submitted to the Court by Munich Re America, and Great Lakes will state that all information provided to me by the companies was correct and complete in all material respects and that there have been no material adverse changes to the financial position of Munich Re America or Great Lakes since that information was provided to me.

2.6 Use and limitations

This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

A copy of this report will be sent to the FSA and will accompany the transfer application to the Court. It will also be available to policyholders and other members of the public as required by the relevant applicable legislation.

This report has been prepared for and addressed to the directors of Great Lakes Reinsurance (UK) PLC, Great Lakes Services Limited and Munich Reinsurance America, Inc. as a body for the purpose of producing the Independent Expert's Scheme Report in accordance with PwC's engagement letter with Great Lakes Reinsurance (UK) PLC, Great Lakes Services Limited and Munich Reinsurance America, Inc dated 15 January 2008 (an extract of which is attached at Appendix D) and is not for the use or benefit of any other party or for any other purpose other than for the use of the court under FSMA. Neither PwC nor I accept or assume any responsibility, liability or duty of care for any use of or reliance on this report by any other person or for any other purpose, including but not limited to the consequences of any other person acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon such report.

2.7 Professional guidance

This report has been prepared in accordance with guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol for the instruction of experts to give evidence in civil claims issues by the Civil Justice Council. This report also complies with the guidance for Scheme Reports set out by the FSA in Chapter 18 of the FSA Supervision Handbook.

This report has been prepared in accordance with Guidance Note 50 issued by the Board for Actuarial Standards, which governs the professional behaviour of members of the Faculty and Institute of Actuaries in the field of general insurance. In view of the objectives and nature of this report, and in order to communicate my findings in an effective manner, I did not consider it appropriate or necessary to include all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments. For this reason, it does not comply fully with Guidance Note 12 issued by the Board for Actuarial Standards, which governs the content of formal actuarial reports on general insurance business.

Outline of scheme



3 Outline of Scheme

3.1 The companies involved in the Scheme

3.1.1 Munich Re America

Munich Re America is a large US-domiciled general insurance and reinsurance company, indirectly owned by Munich Re as described in paragraph 2.1 above. Its history dates back to 1917 when the American Re-Insurance Company (“American Re”) was formed. Munich Re acquired American Re in 1996 and in September 2006 changed the company’s name to Munich Reinsurance America, Inc. In this report, I use the term Munich Re America to refer to the company both in its current form and to American Re prior to 2006.

Munich Re America’s UK branch was established in December 1993 and wrote insurance and reinsurance business between 1994 and 2003 inclusive. Its business falls into two areas:

- A local authority account, predominantly covering the liability risks of local authorities, police forces and fire brigades.
- A diverse commercial account including mutual societies and their members, reinsurance of specific classes such as local authority business written by overseas insurers, and London Market business such as professional indemnity and directors’ and officers’ insurance.

Munich Re America UK also wrote an international reinsurance account, but that business was transferred out of Munich Re America, to Munich Re’s UK General Branch, at the end of 2003, under an insurance business transfer scheme approved by the Court.

The UK branch is currently in run-off, having ceased underwriting new business at the end of 2003. (By “run-off” I mean that it is no longer underwriting new business but it continues to administer and pay claims relating to business underwritten in the past.) I understand that the UK branch no longer has any live policies. This means that, at the date of my report, the policy terms of the insurance policies written by Munich Re America UK have all expired. The gross technical provision held by Munich Re America as at 31 December 2007 to cover its insurance liabilities in respect of the UK branch business was £121m.

Munich Re America UK is authorised by the FSA (FSA number 202891) and has permission to carry out certain classes of general insurance business.

3.1.2 Great Lakes

Great Lakes is a UK-domiciled general insurance and reinsurance company, owned by Munich Re. It was incorporated as a public limited company in November 1987 and has not been the subject of any company name changes.

Great Lakes underwrites a range of risks for large multinational companies via the London Market. This includes general liability, professional indemnity, directors’ and officers’ liability and property risks. Great Lakes also facilitates business for Munich Re Group companies through a number of domestic and foreign agencies and this covers a range of property risks as well as some liability risks. The facilitated business is fully reinsured by Munich Re.

Great Lakes also used to write treaty reinsurance business but ceased doing so as at 1 January 2005. The small amount of treaty reinsurance business outstanding is currently the subject of a solvent scheme of arrangement, expected to be completed before 31 December 2008.

Great Lakes was the subject of another insurance business transfer scheme earlier this year. Between 2001 and 2004 Great Lakes co-insured motor policies with insurers in the QBE insurance group (“QBE”). Great Lakes’ interest in the co-insured business was transferred to QBE via an insurance business transfer scheme approved by the Court in July this year.

Great Lakes is authorised by the FSA (FSA number 202715) and has permission to effect and carry out all classes of general insurance business.

3.2 Description of the Scheme

All of the general insurance and reinsurance business of the UK branch of Munich Re America is to be transferred to Great Lakes. The Scheme will transfer all insurance liabilities of Munich Re America under the transferring policies. It will also transfer the reinsurance contracts specifically protecting this business, and an amount of cash agreed between Munich Re America UK and Great Lakes. The actual amounts are described in a later section of this report. Other rights and obligations of Munich Re America relating to the transferring business will also be transferred to Great Lakes.

In the event of there being any policies that cannot be transferred to Great Lakes under the Scheme on the Effective Date, these “Residual Policies” will be excluded from the Scheme until they can be transferred. Under the Scheme any such policies will be reinsured by Great Lakes so that there will be no net liability in respect of such policies remaining within Munich Re America. It is not currently expected that there will be any Residual Policies.

The transferring business is currently protected by reinsurance specific to this business and by reinsurance covering a wider range of business written by Munich Re America. The wider reinsurance protection is in the form of loss portfolio transfer reinsurance provided by Munich Re, covering the 2001 and prior accident years of Munich Re America’s business. The reinsurance specific to the transferring business will continue to respond to claims after the transfer just as it did before, since the Scheme will transfer Munich Re America’s right to claim under these reinsurance protections to Great Lakes. The wider loss portfolio transfer reinsurance will not be transferred since it also covers other books of business written by Munich Re America.

If the Scheme is approved, a new loss portfolio transfer (“LPT”) reinsurance contract will come into effect under which Munich Re will reinsure Great Lakes in respect of the transferring business. Under the LPT contract, Munich Re will indemnify Great Lakes for all claims paid in respect of the transferring business. In addition it will reimburse Great Lakes for expenses associated with the transferring business, including direct and indirect claims handling costs, administrative costs, the cost of holding regulatory capital and the costs of implementing the Scheme. The LPT contract is intended to protect Great Lakes against all risks and costs associated with the transferring business.

Claims administration for the transferring business is currently the responsibility of Munich Re America UK. Most local authority claims are handled by Gallagher Bassett (the claims handling arm of A J Gallagher); the remainder are handled in-house by the insured authorities, overseen and audited by Gallagher Bassett. Commercial account claims are handled by Munich Re America UK, in conjunction with other London Market insurers where appropriate. After the transfer, claims administration will become the responsibility of Great Lakes. Great Lakes uses Munich Re General Services (a shared services company that performs services for a number of Munich Re companies) to perform its claims handling; this will also be the case for the transferring business. Existing external claims handling agreements, including the agreement with Gallagher Bassett, will transfer to Great Lakes under the Scheme and will continue after the transfer.

3.3 Purpose of the Scheme

The transfer has been proposed as part of an internal reorganisation of Munich Re America. Transferring Munich Re America’s remaining UK branch business, currently in run-off, to Great Lakes will allow the UK branch to be closed. It will also help to streamline the Munich Re Group’s operations in the UK.

Analysis



4 Analysis

4.1 Overview of approach

My approach to assessing the likely effects of the Scheme on policyholders was to:

- Identify the groups of policyholders affected or potentially affected by the Scheme;
- Understand the effect of the Scheme on the assets and liabilities of Munich Re America and Great Lakes (in order to assist me in assessing the effect on policyholders);
- Consider the likely effect of the Scheme on the security of each group of policyholders;
- Consider other aspects of the likely effects of the Scheme (for example the effect on policyholder service).

The sections below address each area in turn.

4.2 Policyholders affected or potentially affected

I have considered the effects of the Scheme on the following groups of policyholders:

- The policyholders of Great Lakes;
- The policyholders transferring from Munich Re America UK to Great Lakes;
- The policyholders remaining with Munich Re America (including policyholders of Residual Policies, if any).

Although not directly affected by the Scheme, I have also considered the policyholders of Munich Re, given the LPT reinsurance contract that Munich Re will enter into in connection with the Scheme.

Any reference to policyholders in this report should be taken to include those who become policyholders between the date of the report and the Effective Date.

I do not believe that the policyholders of any other insurance companies are affected by the Scheme.

I do not believe that any third party who relies on a policy can be adversely affected by the Scheme if the relevant policyholder is not.

4.3 Effect of the Scheme on the assets and liabilities of Munich Re America and Great Lakes

4.3.1 Assets and liabilities as at 31 December 2007

To indicate the effect on Munich Re America and Great Lakes of the proposed transfer, I have shown pre- and post-transfer balance sheets below. Given that the new LPT reinsurance under which Munich Re will reinsure Great Lakes will incept from the Effective Date if the transfer is approved, I have allowed for it in the column showing the changes and the column showing the post-transfer position. I used the figures quoted in the UK FSA returns of each company. For ease of explanation, I have shown the balance sheets in a summarised format.

The balance sheets show pre-transfer amounts as at 31 December 2007. I have chosen this date because it is the latest date for which the FSA returns of Munich Re America and Great Lakes are available at the time of writing my report. I discuss later, in Section 4.3.2, the changes that I would expect to impact the balance sheets between 31 December 2007 and the Effective Date.

Numbers in the tables below have been rounded to the nearest multiple of £1m; as a consequence there are some small differences in totals.

Table 1: Effect on Munich Re America balance sheet

Munich Re America (£m)	Pre transfer	Changes relating directly to transfer	Changes relating to Munich Re America existing LPT	Changes relating to purchase of new LPT by Great Lakes	Post transfer
Assets					
Investments	7,558	(119)	0	-	7,439
Reinsurers' share of technical provisions	5,188	(3)	(41)	-	5,144
Debtors	1,214	0	0	-	1,214
Other	1,054	0	0	-	1,054
Total	15,015	(122)	(41)	-	14,852
Liabilities					
Shareholders' funds	2,958	(1)	0	-	2,957
Technical provisions	7,076	(121)	0	-	6,955
Other	4,981	0	(41)	-	4,940
Total	15,015	(122)	(41)	-	14,852

Table 2: Effect on Great Lakes balance sheet

Great Lakes (£m)	Pre transfer	Changes relating directly to transfer	Changes relating to Munich Re America existing LPT	Changes relating to purchase of new LPT by Great Lakes	Post transfer
Assets					
Investments	453	119	-	(119)	453
Reinsurers' share of technical provisions	1,743	3	-	118	1,865
Debtors	97	0	-	0	97
Other	111	0	-	0	111
Total	2,404	122	-	(1)	2,526
Liabilities					
Shareholders' funds	239	1	-	(1)	239
Technical provisions	1,969	121	-	0	2,090
Other	196	0	-	0	196
Total	2,404	122	-	(1)	2,526

Impact on Munich Re America balance sheet

Munich Re America's year-end 2007 pre-transfer balance sheet shows gross technical provisions of £7.1bn. As a result of the transfer these gross technical provisions will reduce to £7.0bn.

The assets to be transferred to Great Lakes will be a cash payment representing the net price agreed between Munich Re America and Great Lakes, and the existing reinsurance specifically protecting Munich Re America's UK branch business. These two transferring assets will affect the balance sheet items labelled investments and reinsurers' share of technical provisions respectively.

The effect of the transfer on investments (including cash) is a reduction of £119m – a small proportion of the pre-transfer amount of £7.6bn. This £119m represents the transfer of cash from Munich Re America to Great Lakes as noted above. The actual agreed amount to be transferred to Great Lakes is lower because it will be payable at the Effective Date, at which point the transferring liabilities will already have fallen due to claims payments during the year. However, I have rolled the agreed amount back to its year-end 2007 equivalent in order that all the figures in the balance sheet illustration are shown on a consistent basis.

The effect of the transfer of existing reinsurance specifically protecting Munich Re America's UK branch business is to reduce reinsurers' share of technical provisions by £3m – a small reduction compared to the pre-transfer amount of £5.2bn.

There is one further consequence of the transfer affecting Munich Re America (but not affecting Great Lakes) as follows.

Munich Re America's business is protected by loss portfolio transfer reinsurance previously purchased from Munich Re, covering the 2001 and prior accident years of Munich Re America's business. As described earlier, this reinsurance will not be transferred since it covers not just the UK branch business but also other books of business written by Munich Re America.

Within the reinsurers' share of technical provisions shown on Munich Re America's pre-transfer balance sheet there is an amount of approximately £41m representing the level of reinsurance recoveries in respect of the UK branch business that Munich Re America expected to receive in future under the 2001 and prior reinsurance.

As a consequence of the transfer this reinsurance asset will crystallise. Instead of Munich Re America having an expectation of receiving reinsurance recoveries in the future as and when it pays gross claims, it will be able to make the reinsurance recovery when it makes payment to Great Lakes under the proposed transfer.

Its expectation of future recoveries is represented on its balance sheet as £41m of reinsurers' share of technical provisions, so this balance sheet item will fall by £41m.

The reinsurance recovery that will fall due to Munich Re America when it makes payment to Great Lakes would normally be expected to appear as an increase in cash (shown under investments) of the same amount. In practice, however, Munich Re America holds a fund, previously provided by Munich Re, from which it takes recoveries under this reinsurance contract. Since the fund is held by Munich Re America, it is already shown on its balance sheet as an asset (under investments), with a corresponding creditor amount shown under liabilities to reflect the fact that the assets within the fund are owed to Munich Re until such time as recoveries are actually payable to Munich Re America under the reinsurance. As reinsurance recoveries become payable, the effect is to reduce the liability owed to Munich Re. Here, to reflect the fact that Munich Re America will be able to make a recovery when the transfer becomes effective, I have shown a reduction of £41m in the liability item labelled "other", which includes creditor amounts such as the amount owed to Munich Re.

Impact on Great Lakes balance sheet

Great Lakes' year-end 2007 pre-transfer balance sheet shows gross technical provisions of £2.0bn and reinsurers' share of technical provisions of £1.7bn. The large value of the reinsurance asset reflects the large proportion of business that Great Lakes facilitates for Munich Re and is therefore fully reinsured by Munich Re.

Gross technical provisions would increase by 6% (£121m) as a result of the transfer (on the basis of 31 December 2007 figures), but this would be fully offset by an increase in reinsurers' share of technical provisions to reflect the specific reinsurance that would transfer to Great Lakes (valued at £3m as at 31 December 2007) and the new LPT reinsurance that would come into effect (covering the remainder of the £121m). Technical provisions net of reinsurance would therefore remain unchanged.

The balance sheet table shows that this would actually happen in two stages. Great Lakes would receive a cash payment from Munich Re America and would then pass almost all of this on to Munich Re as the premium payment for the new LPT reinsurance. Great Lakes would retain a small amount (less than £0.1m) to cover certain internal costs incurred in preparing for the proposed transfer other than those costs that would be reimbursed under the LPT.

4.3.2 Expected changes in assets and liabilities to Effective Date

Having examined the balance sheets as at 31 December 2007, I then considered the changes that may occur between 31 December 2007 and the Effective Date.

I expect that the normal activities of both companies will continue. Both companies will continue to write new business and will continue to settle claims and re-assess reserves in the light of experience. I do not consider that any additional risk to either group of policyholders will emerge as a result of the continuation of normal business.

The value of the transferring liabilities will fall as Munich Re America continues to settle and pay claims. The decrease in transferring liabilities due to claim payments will result in matching adjustments to the cash payment from Munich Re America to Great Lakes under the transfer and to the premium payable by Great Lakes to Munich Re for the LPT reinsurance contract.

I am satisfied that the arrangements for adjusting the level of cash to be transferred and the LPT premium are appropriate such that they pose no additional risk to the security of policyholders and such that the balance sheets and description above are reasonable for the purpose of illustrating the effect of the transfer.

Further to considering the continuation of normal business, I have discussed with Great Lakes' management the possibility of management actions that could affect the financial position of Great Lakes (such as corporate restructuring or significant changes in new business strategy or operational plans). I have been informed that Great Lakes has no planned activities that would have a material effect on the security of policyholders.

I have concluded that it is unlikely that any events occurring between 31 December 2007 and the Effective Date would affect any conclusion that I reach based on my review as at 31 December 2007.

4.3.3 Technical provisions – General comments

The element of the above balance sheets which is the most difficult to assess – as with all insurance companies – is the appropriate level of technical provisions, i.e. the estimated value of the current and future liabilities that a company will have to pay in respect of the insurance policies it has written to date. This section contains my assessment of that valuation.

It should be noted that the estimation of technical provisions for insurance liabilities (which I also refer to as “reserves”) is an inherently uncertain exercise. An element of subjectivity is inevitably included in any reserve assessment.

Assessment of Munich Re America technical provisions in respect of UK branch business

A full annual reserving exercise is carried out for Munich Re America UK by Munich Re America actuaries in the US in consultation with Munich Re America UK staff based in the UK. The reserving exercise is carried out after the third quarter, and then at year-end the UK branch updates the resulting technical provisions to take account of any major changes over the final quarter.

I have read documentation of the third quarter and year-end 2007 reserving exercises produced by Munich Re America and Munich Re America UK staff, and have discussed with them their approach, the key issues, and their results. They have used standard actuarial techniques that I consider to be appropriate to the circumstances, and the results do not appear unreasonable.

I am satisfied that the technical provisions are reasonable for the purposes of describing the effect of the transfer in my report and of showing simplified balance sheets.

Assessment of Great Lakes technical provisions

Great Lakes commissions regular reserve reviews, either from Great Lakes Services or from external actuarial consultants. At year-end 2007, Great Lakes commissioned a reserve review from Gatenby & Brunskill Limited (“G&B”).

I have read the report produced by G&B and considered their approach, the key issues and their results. They have used standard actuarial techniques that I consider to be appropriate to the circumstances, and the results do not appear unreasonable.

I am satisfied that the technical provisions are reasonable for the purposes of describing the effect of the transfer in my report and of showing simplified balance sheets.

4.4 Security of Great Lakes policyholders

In assessing the likely effect of the transfer on the policyholders of Great Lakes, the main risk to consider would ordinarily be the risk that the liabilities from the transferring policies deteriorate post-transfer to such an extent that Great Lakes’ solvency is threatened. However, Great Lakes’ purchase of LPT reinsurance from Munich Re protects Great Lakes against any future deterioration in the transferring liabilities, that is, it effectively eliminates the reserving risk arising from the transferring business.

Nature of LPT

Under the proposed LPT reinsurance contract, Munich Re will indemnify Great Lakes for all claims paid in respect of the transferring business. In addition it will reimburse Great Lakes for expenses associated with the transferring business, including direct and indirect claims handling costs, administrative costs, the cost of holding regulatory capital and the costs of implementing the Scheme. The LPT contract is intended to protect Great Lakes against all risks and costs associated with the transferring business. The unlimited nature of the contract means that there is no risk of the cover becoming exhausted.

Risk of termination or avoidance

Since Great Lakes is a subsidiary of Munich Re, I believe that it is unlikely that Munich Re would seek to terminate the LPT inappropriately or to avoid paying claims under it. I have, however, still considered whether it would be possible for Munich Re to do so.

I am satisfied that the contract contains appropriate clauses limiting Munich Re’s ability to terminate the contract or to avoid paying claims under it. The following excerpts from the LPT contract are particularly pertinent:

“The reinsurance under this Agreement shall not be capable of cancellation, termination, avoidance or rescission by the Company or the Reinsurer prior to the Termination Date, except in circumstances where the party not seeking to terminate has committed fraud.” (The Termination Date is effectively defined as occurring when the business has fully run-off and all claims liabilities have been met in full.)

“It is hereby acknowledged that neither party nor any of its agents owes the other any duty of utmost good faith in relation to this Agreement and neither party shall be entitled to rescind or avoid or otherwise howsoever to terminate or cancel this Agreement on the grounds of innocent or negligent misrepresentation or breach of the duty of utmost good faith by any person in connection with the discussions leading to, negotiation or conclusion of this Agreement.”

Security of Munich Re

I have considered the risk to Great Lakes of Munich Re being unable to pay claims under the LPT. However, given the financial strength of Munich Re – one of the world’s largest reinsurers, with an Insurer Financial Strength Rating of AA- (“Very strong”) from Standard & Poor’s – I am satisfied that this risk is remote.

Conclusions

My analysis, as described above, has led me to conclude that the security of Great Lakes policyholders would not be materially adversely affected by the proposed Scheme.

4.5 Security of Munich Re America UK transferring policyholders

4.5.1 General comments

In assessing the likely effect of the transfer on the transferring policyholders, the main risk to consider is the risk that Great Lakes, post-transfer, would not be financially secure.

I began this assessment by considering the strength of Great Lakes pre-transfer and have then considered the effect of the Scheme on its strength.

4.5.2 Individual Capital Assessment for Great Lakes pre-transfer

Individual Capital Assessment process and information received

In line with regulatory requirements, Great Lakes Services has made an assessment of the capital that Great Lakes needs to hold in order to mitigate appropriately the risks to which it is exposed and that could otherwise cause it to be unable to meet its liabilities as they fall due. This is known as an Individual Capital Assessment (“ICA”); a definition is given in Appendix A.

I have been provided with documents produced by Great Lakes Services summarising this Individual Capital Assessment. The documents describe the work that they conducted in order to make the assessment. The documents included a discussion of the risks to which Great Lakes is subject in the course of its business, an overview of the methodology employed in carrying out the ICA, and a description of the major assumptions that formed an important part of the assessment. The documents summarised the Individual Capital Assessment projected to 31 December 2007; this was the latest assessment that was available at the time of writing my report. This assessment covered the planning period up to 31 December 2007. It was carried out at the 99.5% confidence level; in other words it was an assessment of the level of capital needed to ensure that the company would be less than 0.5% likely to become insolvent within one year (or the equivalent percentage over a longer time frame). This is the level of confidence at which the FSA requires general insurance companies to carry out an ICA.

Approach to review of Individual Capital Assessment

The ICA is a complicated process which relies on an assessment of the risks in the business, extensive modelling and management judgement to determine an appropriate figure. I have been provided with and reviewed a large amount of detailed documentation setting out the approach to the ICA, the key assumptions made and the results of the work. Additionally I have interviewed the modelling team, and have been provided with further information with respect to my queries in specific areas.

I have considered the appropriateness of the methodology and modelling techniques used. I have also considered the reasonableness of the key assumptions used in the calculations and the results of these calculations. In assessing the reasonableness of the methodology, assumptions and results, I have considered how they compare against my knowledge of the market. Additionally I have compared the assumptions to the historical experience of Great Lakes where appropriate.

Individual Capital Assessment results

The risk area accounting for the largest capital charge within Great Lakes' ICA is that of reinsurance credit risk, in other words the risk that a reinsurer might default on its obligation to pay Great Lakes under reinsurance policies that Great Lakes has purchased. The relatively high capital charge in respect of reinsurance credit risk is due to the high level of reinsurance that Great Lakes has, as a result of the large proportion of business that it facilitates for Munich Re (i.e. business where Great Lakes cedes 100% of the liabilities to Munich Re).

I have reviewed the approach taken by Great Lakes in modelling this area. I note that the assumptions to which this estimate is most sensitive are the level of exposure (driven by level of gross reserves estimated at the extreme level of a 99.5% probability of sufficiency), the probabilities of default of reinsurers, and the recovery rate in the event of default. The exposure is, in turn, sensitive to the 'time to maturity' parameter that is used in order to reflect the fact that exposure should be considered across the entire run-off period of the reserves.

The second largest risk area in the ICA is that of insurance risk, resulting from both underwriting risk (i.e. uncertainty surrounding the extent of claims arising from new premium being written) and reserving risk (uncertainty in respect of the run-off of current reserves and the extent to which these will prove sufficient). The insurance risk has been estimated separately for 'attritional' and 'catastrophe' losses. Key assumptions in modelling insurance risk are those relating to the frequency, severity and timing of losses, in conjunction with the exposure driving these losses and the approach taken to modelling the reinsurance recoveries.

The other main risk areas considered include market risk (arising from fluctuations in asset values, exchange rates and interest rates), bond credit risk, group risk and operational risk (referring to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events).

I have also considered the likely impact on the ICA of the solvent scheme of arrangement and the transfer to QBE described earlier in this report. Both arrangements act to reduce the level of risk to which Great Lakes is exposed and both arrangements relate to relatively small proportions of Great Lakes' liabilities, so my conclusions in respect of the ICA are unchanged by them.

Individual Capital Assessment conclusion

I consider the methodology and modelling techniques used by Great Lakes to be appropriate and in line with current market practice. The assumptions used within any ICA calculation are a matter of judgement. There are areas where I might have selected different assumptions, but any instances where I might have selected a more cautious assumption are outweighed by areas where I believe Great Lakes Services to have made more prudent selections than I might have done.

My review of the ICA has led me to conclude that the level of capital held by Great Lakes is in excess of that needed. I use "needed" here to mean the level of capital required so that the company can meet its obligations to the level of confidence specified by the FSA for general insurance companies.

Nothing further emerged from the documents or my discussions with Great Lakes to give me concerns as to the financial strength of the company.

4.5.3 Individual Capital Guidance

Every insurance company performing an Individual Capital Assessment submits this assessment to the FSA for review. Upon review, the FSA issues the company with Individual Capital Guidance ("ICG"), the FSA's guidance as to the level of capital that it would expect the company to hold based on the company's Individual Capital Assessment, other related information discussed with the FSA and the FSA's view of the assessment and the information. The ICG is intended to target the same level of confidence as described above for the ICA, but reflects the FSA's view rather than the company's.

The capital held as at 31 December 2007 was in excess of the ICG at that time and the capital held continues to be in excess of the updated ICG that the FSA has recently issued to Great Lakes.

4.5.4 Impact of the proposed transfer on Great Lakes' Individual Capital Assessment

To consider the security of Munich Re America UK policyholders if the transfer were to go ahead, I need to assess the strength of Great Lakes post-transfer. Having considered the pre-transfer strength of Great Lakes, as described above, I have considered how this assessment would change post-transfer, both in terms of changes to the level of capital held and changes to the risks that Great Lakes faces.

The level of capital held by Great Lakes post-transfer would not be reduced by the transfer (as shown in section 4.3).

Ordinarily, taking on transferring liabilities would result in Great Lakes seeing an increase in the total reserving risk that it faces. However, the purchase of LPT cover from Munich Re will mean that Great Lakes sees no increase in reserving risk, as any deterioration in the transferred liabilities would be recoverable.

The transfer will lead to an increase in the reinsurance credit risk that Great Lakes faces. However, given that Munich Re is one of the world's largest reinsurers and is rated AA- ("Very strong") by Standard & Poor's, I consider the risk of Munich Re defaulting to be remote.

Based on my assessment of the pre-transfer ICA and my assessment of the likely changes to capital and risk resulting from the proposed transfer, I am satisfied that the level of capital held by Great Lakes would be in excess of that needed. I use "needed" here to mean the level of capital required so that the company can meet its obligations to the level of confidence specified by the FSA for general insurance companies. Nothing further emerged from the documents or my discussions with Great Lakes to give me concerns as to the financial strength of the company if the Scheme were to go ahead. I have concluded that the security of the transferring policyholders would not be materially adversely affected by the proposed transfer.

4.6 Security of Munich Re America remaining policyholders

The transfer will have little impact on the financial strength of Munich Re America, given the size of its UK branch in comparison to Munich Re America as a whole. The level of claims liabilities being transferred out makes up only 1.7% of Munich Re America's gross claims liabilities. The reduction in the level of Munich Re America's assets (comprising the level of assets being transferred out, offset by the Munich Re reinsurance recovery described earlier) is slightly greater than the reduction in the level of its liabilities, so there is a slight reduction in Munich Re America's level of capital (less than 0.1%, as shown in the balance sheet illustration in section 4.3). In terms of Munich Re America's financial strength, the reduction in capital is very small and would be balanced by a small reduction in risk, since Munich Re America would no longer be exposed to the UK branch liabilities.

I have concluded that the security of policyholders remaining with Munich Re America (including policyholders of Residual Policies, if any) would not be adversely affected by the proposed Scheme.

4.7 Security of Munich Re policyholders

Policyholders of Munich Re would not be directly affected by the proposed Scheme. They could be indirectly affected since Munich Re will provide LPT reinsurance cover to Great Lakes (in return for a reinsurance premium). Given the very large size of Munich Re in relation to the liabilities being reinsured and given that LPT reinsurance is one of the types of reinsurance that Munich Re sells in the normal course of its business, I am satisfied that it is unnecessary to consider Munich Re policyholders further.

4.8 Other considerations

4.8.1 Administration of the business to be transferred

Claims administration for the transferring business is currently the responsibility of Munich Re America UK. After the transfer, claims administration will become the responsibility of Great Lakes. Great Lakes uses Munich Re General Services (a shared services company that performs services for a number of Munich Re companies) to perform its claims handling; this will also be the case for the transferring business. Existing external claims handling agreements will continue after the transfer.

The Local Authority account

Claims handling in respect of the Local Authority business is currently performed by Gallagher Bassett, subject to referring all claims over certain limits to Munich Re America UK before substantive action is taken. Munich Re America UK has carried out regular audits of Gallagher Bassett and is satisfied with the level of service provided. There is no intention to change the external claims handling arrangements as a direct result of the transfer.

The commercial account

Munich Re America UK currently handles the majority of claims arising from the London Market business. Large US claims are handled in conjunction with Munich Re America's US claims department. After the transfer Munich Re General Services will perform claims handling for Great Lakes. I am satisfied that there are no material differences between the claims paying philosophies of Munich Re America and Great Lakes.

Conclusion

I do not anticipate any material change in the level of service to policyholders as a result of the proposed Scheme.

4.8.2 Nature of the assets to be transferred

The assets to be transferred to Great Lakes comprise sterling-denominated cash and the right to claim under the reinsurance specific to the business. Great Lakes will use the cash to pay Munich Re the premium required in respect of the LPT. I am therefore satisfied that the nature of the assets to be transferred does not generate any material risk to policyholder security.

4.8.3 Cost and tax effects of the Scheme

The costs of the Scheme are being shared equally between Great Lakes and Munich Re America. I do not believe that the Scheme would be expected to have tax implications that would affect any policyholders.

I do not believe that the cost or tax effects of the Scheme will have a material adverse impact on policyholders.

4.8.4 Future changes in operational arrangements

I have discussed with Great Lakes' management the possibility of management actions that could affect the financial position of Great Lakes (such as corporate restructuring or significant changes in new business strategy or operational plans). I have been informed that Great Lakes has no planned activities that would have a material effect on the security of policyholders.

Conclusion



5 Conclusion

I have considered the Scheme and its likely effect on the policyholders of Munich Re America and Great Lakes. I have concluded that no policyholders (or third parties who rely on their policies) would be materially adversely affected by the proposed transfer.

I confirm that I understand my duty to the Court. I confirm that insofar as the facts stated in my 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.

Appendices

Appendix A List of terms defined within this report

Effective Date	The time and date when the Scheme shall become operative, expected to be 11.59 p.m. on 31 December 2008 or such other time and date as may be specified in the court order
FSA	The Financial Services Authority or such other successor authority, body or organisation as shall for the time being carry out and perform the functions and responsibilities of the Financial Services Authority in relation to general insurance activities in the UK
FSMA	The Financial Services and Markets Act 2000
G&B	Gatenby & Brunskill Limited
Gallagher Bassett	Gallagher Bassett International Ltd.
Great Lakes	Great Lakes Reinsurance (UK) PLC
Great Lakes Services	Great Lakes Services Limited
Independent Expert	The individual appointed to report on the terms of a Scheme and approved by the FSA pursuant to Section 109 of FSMA
Individual Capital Assessment	An insurance company's own assessment of the capital that it needs for regulatory purposes in order to mitigate appropriately the risks to which it is exposed and that could otherwise cause it to be unable to meet its liabilities as they fall due
Individual Capital Guidance	The FSA's guidance to an insurance company as to the minimum level of capital that it would expect the company to hold, based on the company's Individual Capital Assessment and the FSA's view of that assessment and of the risk management framework in place at the company
LPT reinsurance	Loss portfolio transfer reinsurance
Munich Re	Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft
Munich Re America	Munich Reinsurance America, Inc.
Munich Re America UK	UK branch of Munich Reinsurance America, Inc.
Munich Re General Services	Munich Re General Services Ltd
PwC	PricewaterhouseCoopers LLP
Scheme	The Scheme that is the subject of this report
Scheme Report	Report on the terms of the Scheme by an Independent Expert
Technical provisions	The estimated value of all current and future liabilities that an insurance company will be liable to pay relating to policies written to date, also referred to as insurance liabilities

I am a Director of the Actuarial and Insurance Management Solutions (AIMS) practice of PricewaterhouseCoopers LLP (PwC). I am a Fellow of the Institute of Actuaries.

Prior to joining PwC in 1997, I headed and built the actuarial department of a London Market insurance and reinsurance company, where I also served as a member of the board of directors. I was involved in a wide variety of management and actuarial projects ranging from reserving to financial planning and reporting, acquisitions and reinsurance purchasing.

Since 1997, I have continued to work in the above areas for a wide variety of insurance company clients in the UK and Europe. I have also worked on projects as varied as capital management and allocation, insurance insolvencies, US GAAP conversions, insurance business transfers, and advising clients on the impact of legislative and accounting changes.

I am a former chairman and founder member of the London Market Actuaries Group. I have also been involved in the educational aspects of the actuarial profession, which I served as a member of the General Insurance Board.

I have acted in the capacity of Independent Expert in the following transfers:

- The first two general insurance transfers performed under the current UK legislation (FSMA Part VII) in 2002, for
 - WASA International (UK) Insurance Company Limited
 - AGF Insurance Company Limited
- The transfer of American Re-Insurance Company UK Branch policies to Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re) – 2003
- The transfer of all of Stockholm Reinsurance Company (UK) Limited's liabilities to WASA International Insurance Company Limited (Sweden) – 2003
- The transfer of the general insurance liabilities of twelve Aviva plc group companies to The Ocean Marine Insurance Company Limited – 2004
- The transfer of all the general insurance liabilities of The Guarantee Society Limited to CGU Insurance plc – 2005
- The transfer of all the general insurance liabilities of Scottish General Insurance Company Limited to Norwich Union Insurance Limited – 2005
- The transfer of all the Employers Liability policies of Lakewood Insurance Company Limited to If Property and Casualty Insurance Limited (Sweden) – 2005
- The transfer of all the general insurance liabilities of The Northern Assurance Company Limited to The Ocean Marine Insurance Company Limited and CGU International Insurance plc – 2005
- The transfer of all the general insurance liabilities of Privilege Insurance Company Limited to Direct Line Insurance plc – 2005
- The transfer of all the general insurance liabilities of Haven Insurance Policies Limited to Norwich Union Insurance Limited – 2006
- The transfer of all the general insurance liabilities of Hallmark Insurance Company Limited to The National Insurance and Guarantee Corporation Limited – 2006

- The transfer of certain of the general insurance liabilities of Moorgate Insurance Company Limited to The Ocean Marine Insurance Company Limited – 2008

I have also led the Scheme design, project planning and actuarial analysis for a major transfer completed in 2007.

Appendix C Data and other information considered

I have used the following documents, reports, data and other information provided by Munich Re America and Great Lakes:

- Background information on structure of Munich Re and information about Munich Re America and Great Lakes.
- Munich Re America accounts and FSA returns as at 31 December 2007.
- Great Lakes report and accounts and FSA returns as at 31 December 2007.
- Review by Great Lakes actuaries of the Great Lakes insurance liabilities as at 31 October 2006, with allowance for business written to 31 December 2006.
- Review by G&B of the Great Lakes insurance liabilities as at 31 October 2007, with allowance for business written to 31 December 2007.
- Review by Munich Re America actuaries of the Munich Re America insurance liabilities in respect of the UK branch business as at 30 September 2007, rolled forward to 31 December 2007.
- Full report and summary, written by Great Lakes actuaries, of the Individual Capital Assessment conducted for Great Lakes as at 31 December 2007 in conjunction with the FSA's Individual Capital Guidance for Great Lakes.
- Copies of the Scheme document and the transfer agreement between Munich Re America and Great Lakes.
- Details of Great Lakes' reinsurance coverage pre-transfer.
- Policy wording relating to Munich Re America UK Employers' Liability cover.
- Written premiums relating to Munich Re America UK's provision of Employers' Liability cover between 1996 and 2003 inclusive.
- Contract wording and high level pricing calculations relating to the LPT reinsurance to be underwritten by Munich Re.

Information relating to the items listed above was also gathered during conversations with staff of Munich Re, Munich Re America, Munich Re America UK and Great Lakes.

Appendix D Excerpt from Engagement Letter

Confidential

The Directors
Great Lakes Reinsurance (UK) PLC
Plantation Place
30 Fenchurch Street
London
EC3M 3AJ
Attn: Mr Nick Parr

The Directors
Great Lakes Services Limited
Plantation Place
30 Fenchurch Street
London
EC3M 3AJ
Attn: Mr Nick Parr

The Directors
Munich Reinsurance America, Inc.
Plantation Place
30 Fenchurch Street
London
EC3M 3AJ
Attn: Mr Geoff Savage

15 January 2008

Dear Sirs

[Scheme Report for the proposed transfer of insurance and reinsurance business from the UK branch of Munich Reinsurance America, Inc. to Great Lakes Reinsurance \(UK\) PLC pursuant to Part VII of FSMA](#)

The purpose of this Engagement Letter, which incorporates the attached “Terms of Business Precedent – December 2006” (“Standard Terms”), (together the “Contract”), is to confirm the Services that PricewaterhouseCoopers LLP (“PwC”/“we”) will undertake for Munich Reinsurance America, Inc. (“Munich Re America”), Great Lakes Reinsurance (UK) PLC (“Great Lakes UK”) and Great Lakes Services Limited (“Great Lakes Services”), together referred to in this Engagement Letter as “you” or “the Client”.

A similar engagement letter was signed in July 2006 when a similar transfer was proposed. The transfer was halted, however, before we reached the stage of supplying the Deliverables and we have agreed to terminate that engagement with immediate effect. For the avoidance of doubt, this Engagement Letter dated December 2007 replaces the previous engagement letter dated July 2006 in respect of all work performed from December 2007 onwards.

This Engagement Letter describes the Services that we will provide to you in respect of performing the Independent Expert role, including producing the Scheme Report, on the proposed transfer of business under the Financial Services and Markets Act 2000 (“FSMA”) as set out below.

D1. The services

We will produce the Scheme Report, for the use of the Court, describing the proposed transfer and its likely effect on the policyholders of Munich Re America and Great Lakes UK. The report will comply with the guidance for scheme reports set out

by the FSA in Chapter 18 of the FSA Supervision Handbook. We will also liaise with the FSA as required by them, and I will appear before the Court as necessary.

Our work will require an assessment of certain of the insurance liabilities of the companies involved, to the extent necessary for the purposes of describing the effect of the transfer and of showing simplified balance sheets. Our assessment will be based on your internal or external actuarial reviews.

In addition to the insurance liabilities, we will need to assess the appropriateness in nature and amount of the assets to be transferred with the insurance liabilities, to the extent necessary to describe the effect of the transfer. We will also need to understand other aspects that are relevant to the effect of the transfer on policyholders, particularly those relating to the financial strength of the two companies. In respect of Great Lakes UK this is likely to be based on your Individual Capital Assessment.

In the course of our work we may need to rely on the work of staff of Munich Re America, Great Lakes UK or Great Lakes Services, or of staff employed by other companies within the Munich Re group ("Munich Re Group"). We will not be liable for any errors or omissions in the work of Munich Re America, Great Lakes UK, Great Lakes Services or Munich Re Group staff. Without prejudice to the preceding sentence we will, however, complete any review we feel necessary in order to satisfy ourselves that it is reasonable for us to rely on their work.

Before the final court hearing, we may need to consider the extent to which actual changes have been in line with our expectations, in the light of any available updated information, and hence whether there have been any changes that would affect our overall opinion. To the extent that this work is necessary we will perform it and will set out our conclusions for the Court either in a statement (the "Update Statement") or in an updated version of the report.

D2. The deliverables

The Deliverables under this assignment will be:

- the Scheme Report, as described above, addressed to Munich Re America, Great Lakes UK and Great Lakes Services,
- a summary of the Scheme Report (the "Summary") for inclusion in notices to policyholders, and
- an Update Statement (if required).

We note that the Scheme Report, the Summary and the Update Statement will be prepared for and only for the Court in accordance with section 109 of FSMA and for no other purpose. We do not accept or assume responsibility for any other purpose or to any other person to whom the Scheme Report, Summary or Update Statement are shown or into whose hands they may come (other than Munich Re America, Great Lakes UK and Great Lakes Services) save where such responsibility is expressly agreed by our prior consent in writing.

D3. Limitation of liability

We draw your attention to the liability provisions set out in Clause 8 of the Standard Terms, which include:

- a limit on our liability; and
- a limit on the period within which a claim may be brought.

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A copy of this report will be sent to the FSA and will accompany the transfer application to the Court. It will also be available to policyholders and other members of the public as required by the relevant applicable legislation. This report has been prepared for and addressed to the directors of Great Lakes Reinsurance (UK) PLC, Great Lakes Services Limited and Munich Reinsurance America, Inc. as a body for the purpose of producing the Independent Expert's Scheme Report in accordance with PwC's engagement letter with Great Lakes Reinsurance (UK) PLC, Great Lakes Services Limited and Munich Reinsurance America, Inc. dated 15 January 2008 (an extract of which is attached at Appendix D) and is not for the use or benefit of any other party or for any other purpose other than for the use of the court under the Financial Services and Markets Act 2000. Neither PwC nor I accept or assume any responsibility, liability or duty of care for any use of or reliance on this report by any other person or for any other purpose, including but not limited to the consequences of any other person acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon such report. As a condition of reading this report, the reader confirms his or her agreement to the above terms.

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