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Supplemental report of the Independent Expert on the proposed transfer of business from Munich Reinsurance America, Inc.'s UK Branch to Great Lakes Reinsurance (UK) PLC (the "Supplemental Report")

1 Introduction

I have made my report, "Independent Expert Scheme Report on the Proposed Transfer of Business of Munich Reinsurance America, Inc.'s UK Branch to Great Lakes Reinsurance (UK) PLC", dated 10 September 2008 (the "Scheme Report").

This Supplemental Report is an update to, and must be read in conjunction with, the Scheme Report. I have used the same defined terms in this Supplemental Report as I used in the Scheme Report. Definitions of these terms can be found in Appendix A to the Scheme Report, or in the Scheme itself.

The same use and limitations set out in section 2.6 of the Scheme Report apply to this Supplemental Report, as do the comments in paragraph 2.5 of the Scheme Report concerning data and other information made available to me.

The purpose of this Supplemental Report is to take into account any new information made available to me between 10 September 2008 and the date of this Supplemental Report. It considers, in particular, whether my previous conclusion is affected by any recent changes.

2 Information considered

Since I completed my Scheme Report there has been considerable upheaval in the financial markets. I consider below the potential effect of this upheaval on my previous conclusion. I also consider whether updated versions now available of financial information used in my Scheme Report would cause me to alter my previous conclusion. In each case I have considered all of the groups of policyholders identified in my Scheme Report.

2.1 Volatility in the financial markets

Subsequent to the date of my Scheme Report, the situation in the financial markets has worsened and further financial institutions have experienced severe financial problems. In particular, the global investment bank Lehman Brothers Holdings Inc. ("Lehman Brothers") filed for bankruptcy protection on 15 September 2008 and there has been a significant decrease in the stock market valuations of financial institutions. The effects of these events were widespread, with other financial institutions seeking government assistance to restore market confidence in their solvency.

The most significant insurance-related event concerned American International Group, Inc. ("AIG"), a major global insurance group. Following the collapse of Lehman Brothers, AIG's credit rating was downgraded due to heavy losses in the year to date, including exposure to Lehman Brothers via credit default swaps. The downgrade prompted large collateral calls which AIG was unable to meet unaided. To avoid collapse, AIG accepted substantial government assistance.

The serious problems experienced by AIG naturally raise concerns about the financial strength of other insurance and reinsurance groups. The strength of Munich Re is important to the proposed scheme because it reinsures a large proportion of the business that Great Lakes writes and because it provides the Loss Portfolio Transfer ("LPT") protection that will reinsure the transferring liabilities once they have been transferred to Great Lakes. If Munich Re were to experience serious problems, the value of these reinsurance protections could be impaired, which could potentially cause transferring policyholders or existing Great Lakes policyholders to be adversely affected by the transfer. I have conducted additional work in an attempt to determine the risk posed by this scenario. I note also that Munich Re's Insurer Financial Strength Rating from Standard & Poor's is unchanged from that stated in my Scheme Report, namely AA- ("Very strong").

My additional work in this area has been based on the following information and discussions with Munich Re staff:

- Discussions with the Deputy to the Chief Risk Officer at Munich Re, including discussions of risk management practices at Munich Re

- Munich Re quarterly earnings report as at 30 September 2008

- Recent shareholder announcements and investor presentations available on Munich Re's website

- Confirmation from the Deputy to the Chief Risk Officer at Munich Re that he is not aware of any material adverse change to the financial position of Munich Re since the information that I have used was made available

I have considered risks on the asset side and the liability side of Munich Re's balance sheet which could potentially be severe enough to threaten its solvency, since these are risks that could affect my opinion regarding the security of policyholders post-transfer.

Liability risks

Credit default swaps

Credit default swaps are effectively insurance contracts to protect against default of debt instruments, structured as a financial instrument rather than an insurance contract. This structure means that they can be used to speculate on the likelihood of default by a debt issuer. AIG's losses from its participation in the credit default swap market, and the collateral it was required to post on these contracts when its credit rating fell, were key causes of its need for government funding.

Munich Re's use of derivatives (including credit default swaps) is largely limited to hedging and does not extend to speculation or proprietary trading. It does not underwrite complex credit-related structured products. It is not, therefore, exposed to the associated risks to an extent comparable to AIG.

Transparency of risks written

With the exception of certain catastrophe risks, Munich Re does not generally transfer its risks onto third parties using securitization (i.e. conversion into marketable securities), which would have the potential to reduce the transparency of its balance sheet.

Hurricane exposure

There have been two North Atlantic hurricanes of note in 2008 – Hurricanes Gustav and Ike. Munich Re estimated its losses from these hurricanes as approximately €400m as at 30 September 2008. While this figure is large enough to dent profits, it is not sufficiently large to threaten Munich Re's solvency.

Asset risks

Equity values

As at 30 September 2008, Munich Re had reduced the proportion of equities making up its total investments to 5% (after hedging), from 11% as at 31 December 2007. Given that the proportion is small, even a severe fall in equity values would have a limited effect on the overall investment portfolio value.

Credit risk on fixed income investments

Munich Re uses a system of strict counterparty credit risk limits. This includes fixed income investments such as government debt, corporate debt and structured products. Counterparty credit risk limits reduce the risk of heavy asset losses arising from issuer defaults. 89% of Munich Re's debt portfolio was rated 'A' or higher as at the third quarter 2008, of which the majority were government or covered bonds.

Liquidity risk

Unlike many banks, insurance and reinsurance companies are typically cash-rich because they receive a steady flow of premium income and because they receive premiums in advance of paying out claims. For this reason, liquidity risk is not one of the greatest risks to Munich Re in the way that it can be to banks.

Other comments

Statements in Munich Re's quarterly report as at 30 September 2008 indicate that it is sufficiently confident of its financial strength to adhere to paying its previously projected dividend to shareholders and to continue its previously announced share buy-back programme, in contrast to some other insurance or reinsurance companies.

Conclusion on risk of default by Munich Re on its reinsurance protections to Great Lakes

Based on the information I have received, my discussions with Munich Re staff and my comments on potential risks above, I have concluded that the likelihood of default by Munich Re on its reinsurance protections to Great Lakes remains remote.

Additional comments on group risk

Recent market events have raised general awareness of group risk i.e. the risk to which a company is exposed by being part of a group of companies. I will therefore expand on my Scheme Report by commenting explicitly on that risk in the context of Great Lakes:

In my Scheme Report I described the information I received relating to the Individual Capital Assessment for Great Lakes and my review of that assessment. Group risk was included in that information and in my review. In the case of Great Lakes, by far the largest constituent of group risk relates to its reinsurance protections purchased from Munich Re. Other constituents of group risk are very much smaller by comparison. I concluded above that the likelihood of default by Munich Re on its reinsurance protections to Great Lakes is remote. Given that the other constituents of group risk are very much smaller, the likelihood of them affecting policyholder security is also remote.

Conclusion

I have concluded that the information considered above would not cause me to alter the conclusions stated in my Scheme Report.

2.2 Updated information on the transferring liabilities

My update work in this area has been based on the following information made available to me by Munich Re America UK:

- Financial statements for Munich Re America as at 30 September 2008
- Confirmation that Munich Re America staff are not aware of any material adverse change to the financial position of Munich Re America since the information that I have used was provided to me
- Updated assessment, as at 30 September 2008, of the liabilities in respect of the transferring business
- Confirmation that Munich Re America UK staff are not aware of any material adverse change to the liabilities since the information that I have used was provided to me

The updated assessment of the transferring liabilities shows that claims experience since 31 December 2007 has been broadly in line with expectations.

I have considered the information listed above and have concluded that it would not cause me to alter the conclusions stated in my Scheme Report.

2.3 Updated information on Great Lakes

My update work in this area has been based on the following information made available to me by Great Lakes:

- Summarised financial statements (profit & loss account and balance sheet) as at 30 September 2008
- Comparison, as at 30 September 2008, between the level of capital held by Great Lakes and its required level of regulatory capital
- Letter from the FSA providing its latest Individual Capital Guidance to Great Lakes
- Confirmation that Great Lakes staff are not aware of any material adverse change to the financial position of Great Lakes since the information that I have used was provided to me

I have considered the information listed above in conjunction with my Scheme Report and have concluded that the level of capital held by Great Lakes remains in excess of that needed to meet its obligations to the level of confidence specified by the FSA for general insurance companies.

Further, taking into account the information in section 2.2 above, I have confirmed my conclusion in the Scheme Report that the level of capital held by Great Lakes allowing for the proposed transfer would remain in excess of that needed to meet its obligations to the level of confidence specified by the FSA for general insurance companies.

I have concluded that the information listed above would not cause me to alter the conclusions stated in my Scheme Report.

2.4 Updated documents relating to the proposed Scheme

I have received final versions of the Scheme document, the transfer agreement between Munich Re America and Great Lakes, and the LPT reinsurance contract between Munich Re and Great Lakes. I have compared these against the draft versions that I had received at the time of my Scheme Report. I am satisfied that the amendments are minor and would not cause me to alter the conclusions stated in my Scheme Report.

3 Overall conclusion

I have considered the possible effects on the proposed transfer of events that have occurred since I finalised the Scheme Report dated 10 September 2008. In each case I have considered all of the groups of policyholders identified in my Scheme Report. My conclusion is unchanged from that stated in that report, namely that no policyholders would be materially adversely affected by the proposed transfer. In particular, I continue to believe that the security of policyholders (by which I mean the probability of claims liabilities to policyholders being paid) would not be materially adversely affected by the proposed transfer.

F Duncan

Fred Duncan FIA

2 December 2008