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27 January 2008

Sandra O'Sullivan
Chief Financial Officer
Enstar Australia Limited
Level 9, 220 George St
Sydney 2000

Dear Sandra,

Proposed Transfer of the Australian Branch Liabilities of Municipal Mutual Insurance Ltd to Gordian Runoff Ltd

Background

As Appointed Actuary to Gordian Runoff Ltd (Gordian), I have been asked to undertake an investigation in order to support the actuarial report supplied by Richard Wilkinson of KPMG Actuaries Pty Ltd entitled "Actuarial Report on Proposed Transfer of MMI Australia to Gordian Runoff Limited Under Division 3A of Insurance Act" ("the KPMG Report") on the subject of the above-mentioned proposed transfer ("the Transfer"), and dated 22 January 2009.

I note that the KPMG Report is mainly focused on protection of the interests of the policyholders of the Australian branch of Municipal Mutual Insurance Limited ("MMI Australia") regarding the Transfer. However, I also note that Richard Wilkinson states that "neither the policyholders of MMI Australia (n)or (those of) Gordian will be detrimentally affected by the proposed Scheme in any material way".

Scope

The scope of my task is detailed in the engagement letter.

A key driver of the scope of the investigation is my interpretation of materiality in the context of the Transfer. In this regard I note that the MMI Australia provision for outstanding claims at 15 July 2008 was \$1.120m. This compares with a Gordian provision totalling \$371.3m at 30 June 2008. In other words, the MMI Australia provision was approximately 1/300 th of the Gordian provision at around the same date. Whilst materiality is a subjective issue, and therefore may differ in the minds of different stakeholders, in my judgement this comparison of respective provisions causes me to focus on the very extreme ends of the distribution of potential claim outcomes for any meaningful investigation in the context of the Transfer. This interpretation requires a substantial under-estimation of MMI Australia policyholder liabilities to allow any material detrimental impact on Gordian policyholders.

Analysis

There are in my opinion only two areas of potential under-estimation of the MMI Australia liability that could affect the combined liability to a significant extent, namely:

- 1) A significant area of latent claim development that may affect the MMI Australia portfolio without a similar proportional impact on the Gordian portfolio:
- 2) Areas of liability applying to MMI Australia that may currently appear in the balance sheets of other MMI entities

The first area is covered in section 2.3 of the KPMG Report, which documents the investigation of the distinctive remaining liability of MMI Australia. This provides me with confidence that, despite the noted uncertainty surrounding any potential claim development at this stage in the runoff of the portfolio of claims, the possibility of a development significant enough to detrimentally affect the Gordian policyholders' position is small enough to be disregarded in the context of current Gordian policyholders.

In respect of the second area, I have discussed the potential "hidden liability" directly with Richard Wilkinson. He has explained the circumstances of the licensing arrangements for MMI worldwide. As a result I regard the possibility of such an additional liability as being so remote as to be negligible.

Conclusion

In conclusion I support the findings of the KPMG Report that there are no detrimental effects on either the MMI Australia or Gordian policyholders as a result of the proposed Transfer.

It should be noted that my investigations do not constitute an actuarial valuation report on outstanding claim liabilities (as described in Institute of Actuaries of Australia Professional Standard 300) or an External Peer Review of the KPMG Report (as described in Institute of Actuaries of Australian Professional Standard 100).

I note that this letter may be made available to APRA, Municipal Mutual Insurance Limited, the Federal Court of Australia and the policyholders of both Gordian and MMI Australia.

Yours sincerely



Dave Finnis FIAA