Annual Report 2007

Great Lakes
Munich Re Group

Contents

Directory

Directors

M. C. F. Hannan (Chairman)
N. J. Parr (Chief Executive Officer)
G. Guelfand (Chief Financial Officer)
D. S. Höpke
J. Ludbrook
W. Morris
N. H. H. Smith

Secretary

M. A. Odell

Registered Office

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Auditors

KPMG Audit Plc
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Bankers

Barclays Bank PLC
The Bank of New York (Europe) Ltd

Registered Number

2189462

Report of the Directors

The Directors present their annual report together with the audited financial statements of Great Lakes Reinsurance (UK) PLC ("the Company") for the year ended 31 December 2007 and the auditor's report thereon.

Principal Activities

The Company's principal activity is the transaction of general insurance business.

Business Review

Overview

The Company is a FSA regulated insurer and acts as an insurance vehicle for the Munich Re Group ("MR"), developing opportunities for MR and managing business using its wide range of insurance licenses. The majority of the Company's business is sourced in the UK, the USA via an extensive range of US licenses and passport opportunities in the EU.

In the course of 2007 the Company established two branch operations: one in Sydney, Australia and one in Zurich, Switzerland. The branches will become operational in 2008 and they are expected to further enhance the Company's ability to generate new business.

The Company ceased underwriting its worldwide property focused treaty reinsurance account from 1 October 2004. In April 2007 the Company applied to the High Court for permission to convene a meeting of Scheme creditors to approve our Scheme of Arrangement. The Company's Scheme of Arrangement was subsequently sanctioned by the High Court in July 2007. The bar date for creditors to submit their scheme claims was 7 January 2008. It is anticipated that the Scheme of Arrangement will be concluded around the middle of 2008.

The Company relocated to new London City offices in August 2007. It has also extended its shared services with other MR Group business units.

More information about the Company, its people and its service offerings are outlined in the Company website at www.greatlakes.co.uk.

Results and Dividends

The results for the year are set out on pages 9 to 11.

The 2007 business year produced an operating profit after tax of £16.0m in comparison with a profit of £47.8m in 2006.

The Directors approved and paid interim dividends of £21.2m during the course of the financial year (£20.0m in 2006) to its parent entity, Münchener Rückversicherungs-Gesellschaft AG, a company incorporated in Germany with limited liability.

The shareholders' funds of the Company as at 31 December 2007 total £239.3m (2006 £244.4m).

Sources of business

The Company uses two distinct models for accessing insurance business – delegated acceptances via agency agreements and individual acceptances of large single risks. The principal reinsurance partner is MR, which enables the Company to obtain additional capacity, expertise and resources.

Agency Arrangements

This is the dominant component of the portfolio in terms of premium volume. Business is accepted under either a tailored form of Agency Agreement or Co-insurance arrangement, for which Gross written premium income in 2007 amounted to £855.3m (£827.1m in 2006).

Each arrangement is specific to a market segment, ranging from large risks or smaller commercial risks, through to personal lines. The classes of business covered include Motor, Aviation, Health, Property, Marine and Jewellers Block.

Large Single Risk Business

The Company underwrites single large risks of corporate clients in the London Market and acquires most business of this type through brokers. Gross written premium income in 2007 amounted to £155.9m (£177.0m in 2006).

The Company retains the business it underwrites through its Munich-American Risk Partners (MARP London) brand. MARP offers a highly respected underwriting service to target clients, which are Fortune 5000 companies and other large corporates and their captives who demonstrate a commitment to risk management, risk retention, loss prevention and loss control. Standard and bespoke solutions in the classes of Property, Casualty and Speciality Lines including Professional Indemnity, Directors and Officers' Liability, Public Offering of Securities Insurance, Employment Practices Liability and Fiduciary Liability are developed through close cooperation with the clients.

Management and Employees

The Company has a management agreement with Great Lakes Services Limited, its wholly owned subsidiary, which employs UK personnel, provides the administration of expenses and full management services. Accordingly the Company has no employees of its own.

High Level Strategy

The Company's principal mission is to add value for the MR Group by being a best practice insurance solutions provider. The Company aims to achieve this by benchmarking itself against MR, the London Market and regulatory standards.

The Company also contributes and subscribes to MR Group best practice standards for the operation of agency programme arrangements, and collectively these measures help to de-risk the operational aspects of the business to acceptable levels. The Company is committed to minimising risk for all transactions and has in 2007 developed a risk based system for monitoring the agency business which will be rolled out in 2008.

Strategy is formulated during the annual planning process when a business plan is developed and approved, and implementation is controlled and measured via the Balanced Scorecard process. The necessary challenge is provided by a quarterly Board review process. The Balanced Scorecard is communicated to staff and individual performance objectives are aligned with the Scorecard initiatives to facilitate delivery of the strategy. The Company is committed to empowering staff to make decisions in line with an appropriate level of authority.

Key Performance Indicators ("KPIs")

Performance during the current year together with the comparative data is set out below:

KPIs	2007	2006	
Gross Written Premium £m	1,011.6	1,070.1	Gross premium written before outwards reinsurance
Gross Loss Ratio	65.3%	49.1%	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	90.7%	72.0%	Ratio of gross claims incurred, commissions and expenses to gross premium earned
Administrative Expense Ratio	1.6%	1.2%	Ratio of administrative expenses to gross premium earned
Profit Before Tax £m	22.2	28.3	Operating profit from ordinary activities before tax
Shareholders' Funds £m	239.3	244.4	Excess of assets over liabilities supporting business model
Solvency Margin	231.9%	237.0%	Ratio of the adjusted capital to minimum capital requirements

The overall level of gross written premium in 2007 was 5.5% lower compared to 2006. The key focus on profitable underwriting and cycle management underpins premium development, whereby significant reductions in our participation for certain classes of business have been partially offset by new business developments in other areas.

Gross loss and combined ratios highlight ongoing positive underwriting performance. Continued monitoring of our solvency adequacy with a very satisfactory margin ensures compliance with regulatory requirements and efficient capital management.

The Company is rated A+ Superior by A M Best and AA- Strong by Standard and Poor's.

Investments

In 2007, the Company generated net investment income of £22.6m (2006 £12.5m). The major increase is attributable to capital movements on holding very high quality fixed interest securities (88% being government bond holdings) that benefited from the increased performance due to credit issues impacting financial markets.

During the first quarter of 2007 the Company decided to exit its equity investments and currently has no exposure to that asset class. There is no exposure to mortgage backed or collateralised debt instruments in the investment portfolio.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management and appropriate Board committees.

The principal Board committees are:

- The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial, operational risks and that controls operate effectively.

- The Investment Committee reviews and monitors the overall investment strategy by approving the investment mandate, monitoring the asset-liability matching process and the performance of the investment manager.

- The Remuneration Committee determines the remuneration of the Executive Directors and Senior Management.

The compliance team and finance department operate an important oversight role. Compliance with regulation, legal and ethical standards are high priority for the Company.

The RADaR system developed in house is used for the purpose of the identification and management of risk inherent in or emerging from the different operating departments, and the Company as a whole. Individual Capital Assessment principles are used to manage capital requirements and to ensure the appropriate financial strength and capital adequacy supports business growth, and meets the requirements of policyholders, regulators, rating agencies and the shareholder.

The principal risks from our insurance business arise from inaccurate pricing; fluctuations in the timing, frequency and severity of claims compared to expectations; inadequate reinsurance protections and reserving. In addition, the key element of the business model is controlling the delegation of underwriting authority to agents, which are approved by the Board.

The strategic emphasis of using a partnership approach with business partners (including reinsurers) to ensure a close cooperation and a focus on developing risk management systems puts the Company in a strong position to monitor and control its agents. This includes a regular programme of on-site reviews at the agents.

Financial Risk Management

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with both the MR Group Risk Management Framework and the Company's Individual Capital Assessment.

A number of risk factors affect the Company's operating results and financial condition. The financial risk factors affecting the Company include the effects of market risk, credit risk and liquidity risk on the financial instruments of the Company.

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The primary market risk that the Company faces is interest rate risk because most of its assets are investments that are fixed interest securities and short term cash deposits, the value of which is subject to interest rate risk. The Company maintains financial assets with similar duration and cash flow characteristics as the underlying insurance liabilities in order to minimise market risk.

Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract. A mandate is in place that restricts investment exposure to a very low risk in accordance with the Company risk appetite.

Liquidity risk is the risk that the Company may be unable to meet its payment obligations in a timely manner at a reasonable cost. Liquidity management in the Company seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover its claims obligations.

Most of the Company's assets are highly marketable securities, which reduces the liquidity risk.

Directors & Directors' Interests

The directors of the Company at the date of this report are set out on page 2. Changes in directors during 2007 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
G. Guelfand	24 May 2007	
W. Morris	24 May 2007	
D. S. Höpke	24 May 2007	
R.A.S. Harris		25 May 2007
W.J. Branum		25 May 2007
C. Schurig		25 May 2007

N. J. Parr holds one Ordinary share of £10 (2006 – one share) as trustee. None of the directors had a beneficial interest in the shares of the Company. Under the provisions of the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate holding company.

Major Shareholdings

The Company is wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG, a Company incorporated in Germany. Copies of the Munich Re Group accounts are available from Königinstrasse 107, 80802, Munich, Germany.

Creditors Payment Policy

In respect of all its suppliers, it is Company policy to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment;
- abide by the terms of payment; and
- pay all suppliers on a weekly basis

All suppliers are paid via the Company's service company subsidiary, Great Lakes Services Limited; application of the above policy by that company has led to an average creditor's payment period of 16 days.

Disclosure of information to Auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and that each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and, in accordance with section 384 of the Companies Act 1985, a resolution proposing their reappointment will be submitted at the annual general meeting.

By order of the Board

M.A. Odell
Company Secretary
28 March 2008

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with the UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the members of Great Lakes Reinsurance (UK) Plc

We have audited the financial statements of Great Lakes Reinsurance (UK) PLC for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
28 March 2008

Profit and Loss Account

Technical Account - General Business
31 December 2007

	Notes	2007 £'000	2007 £'000	Restated 2006 £'000	Restated 2006 £'000
EARNED PREMIUMS, NET OF REINSURANCE					
Gross premiums written					
Continuing activities			1,011,135		1,068,706
Discontinued activities			467		1,412
	14		**1,011,602**		**1,070,118**
Outwards reinsurance premiums					
Before Part VII transfer		990,131		1,011,345	
Effect of Part VII transfer	4	-		40,908	
Outward reinsurance premiums			**990,131**		**1,052,253**
Net premiums written					
Before Part VII transfer		21,471		58,773	
Effect of Part VII transfer	4	-		(40,908)	
Net premiums written			**21,471**		**17,865**
Change in the gross provision for unearned premiums	3		17,054		(49,302)
Change in the provision for unearned premiums - reinsurers' share	3		6,819		(52,596)
Change in the net provision for unearned premiums			**10,235**		**3,294**
Earned premiums, net of reinsurance			31,706		21,159
Investment income	8		22,588		12,508
Other technical income			16,724		16,839
TOTAL TECHNICAL INCOME			**71,018**		**50,506**

Profit and Loss Account
Technical Account - General Business
31 December 2007

	Notes	2007 £'000	2007 £'000	Restated 2006 £'000	Restated 2006 £'000
CLAIMS INCURRED, NET OF REINSURANCE					
Claims paid					
- gross amount			653,250		509,686
- reinsurers' share before Part VII transfer		646,271		497,276	
- effect of Part VII transfer	4	-		40,908	
- reinsurers' share			**646,721**		**538,184**
- net of reinsurance before Part VII transfer		6,529		12,410	
- effect of Part VII transfer	4	-		(40,908)	
- net of reinsurance			**6,529**		**(28,498)**
Change in the provision for claims					
- gross amount	3		18,750		(8,966)
- reinsurers' share	3		(5,577)		(35,173)
- net of reinsurance			**24,327**		**26,207**
Claims incurred net of reinsurance			30,856		(2,291)
Net operating expenses	5		19,309		15,059
TOTAL CHARGES			**50,165**		**12,768**
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS					
Continuing activities			12,818		30,019
Discontinued activities			8,035		7,719
			20,853		**37,738**

Profit and Loss Account
Non-Technical Account
31 December 2007

	Notes	2007 £'000	Restated 2006 £'000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		**20,853**	**37,738**
INVESTMENTS			
Investment income	8	22,588	12,508
Investment income allocated to the technical account		(22,588)	(12,508)
		20,853	**37,738**
OTHER CHARGES			
Exchange gains/(losses)		1,325	(9,466)
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		**22,178**	**28,272**
Tax on profit on ordinary activities	9	6,160	(19,549)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX, RETAINED FOR THE FINANCIAL YEAR		**16,018**	**47,821**

There were no other recognised gains or losses other than the profit for the year.
All gains and losses relate to continuing activities.

Balance Sheet
Assets
31 December 2007

	Notes	2007 £'000	2006 £'000
INVESTMENTS			
Financial investments	10	453,183	369,938
Deposits with ceding undertakings		119	149
		453,302	**370,087**
Investment in Subsidiary		**50**	**50**
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium provision	3	465,582	472,866
Claims outstanding	3	1,277,615	1,286,948
		1,743,197	**1,759,814**
DEBTORS			
Arising out of direct insurance operations	18	96,857	106,954
Arising out of reinsurance operations		194	22
Corporation tax recoverable		-	5,609
Deferred tax	9	35	15,154
Other debtors	18	15,609	326
		112,695	**128,065**
OTHER ASSETS			
Cash at bank and in hand		**7,286**	**47,147**
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		4,491	3,427
Deferred acquisition costs		83,424	73,472
		87,915	**76,899**
TOTAL ASSETS		**2,404,445**	**2,382,062**

Balance Sheet
Liabilities
31 December 2007

	Notes	2007 £'000	2006 £'000
CAPITAL AND RESERVES			
Called up share capital	11	114,000	114,000
Profit and Loss Account	13	125,251	130,433
Shareholders' funds attributable to equity interests		**239,251**	**244,433**
TECHNICAL PROVISIONS - GROSS			
Unearned premium provision	3	498,794	516,050
Claims outstanding	3	1,470,155	1,451,437
		1,968,949	**1,967,487**
PROVISIONS FOR OTHER RISKS AND CHARGES			
Taxation		3,943	-
CREDITORS			
Arising out of direct insurance operations	18	85,493	88,144
Arising out of reinsurance operations		659	32
Deposit liabilities		12,660	-
Other creditors	12/18	11,769	10,077
		110,581	**98,253**
ACCRUALS AND DEFERRED INCOME			
Deferred reinsurance commissions		81,721	71,889
TOTAL LIABILITIES		**2,404,445**	**2,382,062**

Approved by the Board on 28 March 2008

N. J. Parr - Chief Executive Officer

G. Guelfand - Chief Financial Officer

Notes to the Accounts

1. Basis of preparation of the Financial Statements

The financial statements have been prepared in accordance with the provisions of Sections 255 of, and Schedule 9A to, the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The financial statements have been prepared in accordance with applicable accounting standards and comply with the revised Statement of Recommended Practice (SORP) issued by the Association of British Insurers (ABI) in December 2005, amended in 2006. The ABI SORP has been prepared under the historic cost accounting rules, modified to include the revaluation of investments.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG (“Munich Re”), which includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Munich Re the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Munich Re, within which this Company is included, can be obtained from the Company’s registered office at the address provided in the report of the Directors on page 6.

The Directors have decided to reclassify certain exchange gains / losses arising on technical balances within the profit and loss account in order to give a clearer presentation of the results. The impact of this reclassification is to increase investment return by £7.6m and increase other charges – exchange losses by the same amount. The directors have also decided to allocate all investment income from the non technical to the technical account. The impact is an additional allocation of £9.0m.

There has been no impact on the profit after tax and net assets for the prior period from these reclassifications.

2. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Premiums

Written premiums comprise the amount receivable including the estimate of pipeline premiums during the financial year for the whole period the Company is on risk in respect of contracts of insurance entered into and incepting during that period, together with any further adjustments to premiums receivable for prior accounting periods that had not been fully recognised in previous financial statements.

Premiums are stated before deduction of commissions but net of taxes and duties levied on premiums.

Earned premiums represent premiums written adjusted for the change in provision for unearned premiums.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Unearned premiums

Unearned premiums are calculated based on the term of the risk which closely approximates the pattern of risks underwritten using either the daily pro-rata method or the 24ths method.

Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance and reinsurance contracts. The proportion of acquisition costs incurred in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premium is earned.

Claims incurred

Claims incurred comprise claims and claim settlement expenses (both internal and external) paid in the year and the movement in the provision for outstanding claims and settlement expenses, including an allowance for the costs of claims incurred by the balance sheet date but not reported until after the year end.

Claims outstanding

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the company. The estimate of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The Company takes all reasonable steps to ensure that it has all appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, the final outcome may be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured, giving rise to the claims notifications long after the actual event has happened. Classes of business where the IBNR proportion of the total reserve is high, such as liability business, will typically display greater variations between initial estimates and final outcomes because of the greater degree of uncertainty in estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event, such as property business, tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, management uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to vary when compared with the cost of previously settled claims including:

- changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques includes the estimation of the cost of notified but not paid claims. In estimating the cost of this management has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Where appropriate large claims are assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Management adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each underwriting year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the reinsurers' share of provisions for claims based on calculated amounts for outstanding claims and projections for IBNR, net of estimated uncollectible amounts. An assessment of the recoverability of reinsurance recoveries is made having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Group's actuaries use a number of statistical techniques to assist in making these estimates.

The provision for claims also includes amounts in respect of claims handling costs.

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

Unexpired risk provisions

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of the contracts concluded before that date are expected to exceed the unearned premiums in respect of such policies after deduction of acquisition costs deferred. In calculating such a provision all business segments are considered as a whole and are stated after taking into account future investment income.

Other technical income

Other technical income comprises overriding commissions receivable and is reflected in the technical account on the same basis as the underlying business to which it relates.

Investments

Quoted investments are stated at their current value at the balance sheet date. Listed investments are stated at bid - value at the close of business on the balance sheet date or the last Stock Exchange dealing day before the balance sheet date.

Investments in Group undertakings recorded in the Company's own balance sheet are stated at cost less provisions for any impairment.

Investment income

Investment income comprises interest, dividends, and realised and unrealised investment gains and losses.

Realised gains and losses represent the difference between net sales proceeds and purchase price or market value at the previous year end. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price, adjusted for previously recognised unrealised gains and losses on investments disposed of in the accounting period.

All investment income and gains and losses, are initially accounted for in the non-technical account. An allocation is then made from the non-technical account to the general business technical account to reflect the return of those assets supporting underwriting activities.

Deferred taxation

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred tax".

Leases and hire purchase contracts

Payments made under operating leases are charged to the profit and loss account in the period in which they become payable.

Foreign currencies

Assets and liabilities denominated in currencies other than sterling are translated into sterling at the rate of exchange ruling at the balance sheet date.

Revenue transactions in other currencies are converted into sterling at the rate ruling at the time of the transaction.

3. Technical Provisions

	Provision for unearned premiums 2007 £'000	Claims outstanding 2007 £'000	Total 2007 £'000	Provision for unearned premiums 2006 £'000	Claims outstanding 2006 £'000	Totals 2006 £'000
GROSS AMOUNT						
At beginning of the year	516,050	1,451,437	1,967,487	466,748	1,460,403	1,927,151
Currency translation differences	(202)	(32)	(234)	-	-	-
Movement in the provision	(17,054)	18,750	1,696	49,302	(8,966)	40,336
At end of the year	**498,794**	**1,470,155**	**1,968,949**	**516,050**	**1,451,437**	**1,967,487**
REINSURANCE AMOUNT						
At beginning of the year	(472,866)	(1,286,948)	(1,759,814)	(420,270)	(1,322,121)	(1,742,391)
Currency translation differences	465	3,756	4,221	-	-	-
Movement in the provision	6,819	5,577	12,396	(52,596)	35,173	(17,423)
At end of the year	**(465,582)**	**(1,277,615)**	**(1,743,197)**	**(472,866)**	**(1,286,948)**	**(1,759,814)**
NET TECHNICAL PROVISIONS						
At end of the year	**33,212**	**192,540**	**225,752**	**43,184**	**164,489**	**207,673**
At beginning of the year	**43,184**	**164,489**	**207,673**	**46,478**	**138,282**	**184,760**

Provisions for net claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims amounted to an overprovision in 2007 of £18.0m (2006 - £19.7m).

4. Part VII Transfer

On 31 March 2006 a portfolio of business from Royal and Sun Alliance Insurance plc was transferred to the company for no consideration in accordance with a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 8 February 2006. The assets and liabilities transferred are set out below:

	2006 £'000
ASSETS	
Investments	40,301
Deferred acquisition costs	10,151
Debtors	59,345
	109,797
LIABILITIES	
Technical provisions	40,908
Unearned premium reserve	46,590
Creditors	22,299
	109,797

Following the transfer the company reinsured 100% of this portfolio with Munich Re UK Life Branch. The premium payable was £40.9m as disclosed in the 2006 technical account.

5. Operating Expenses

	2007 £'000	2006 £'000
Acquisition costs	253,901	229,149
Change in gross deferred acquisition costs	(9,919)	(7,040)
	243,982	222,109
Administrative expenses	16,842	12,474
Gross operating expenses	260,824	234,583
Reinsurance commissions and profit participation	(251,333)	(226,378)
Change in deferred reinsurance commission	9,818	6,854
	19,309	**15,059**

6. Administrative Expenses

All administration expenses, including auditors remuneration amounting to £206,000 (2006 - £162,000) for audit services and £547,382 (2006 - £288,315) for non audit services, are paid by the Company's wholly owned subsidiary, Great Lakes Services Limited. These expenses are recharged to the Company, with disclosures being made in the accounts of the service company.
The fees paid in respect of non audit services can be broken down as follows:

	2007 £'000	2006 £'000
Services relating to taxation	26	87
All other services	521	201
	547	**288**

The Company has no employees and does not pay any remuneration other than fees to its Directors. Any pension contributions to the multi employer pension scheme are disclosed in the accounts of the service company.

7. Remuneration of Directors

	2007 £'000	2006 £'000
Directors' emoluments	977	668
Pension contributions	299	58
	1,276	**726**

The Directors' remuneration consists of the emoluments paid to the Directors by the Company and its subsidiary undertaking Great Lakes Services Limited. The emoluments of the highest paid director for the year were £213,767 (2006: £200,175) and pension contributions of £165,352 (2006 £35,358).

8. Investment Income

	2007 £'000	Restated 2006 £'000
Investment income	19,016	18,519
Realised gains	155	425
Unrealised gains / (losses)	3,861	(5,198)
Investment management expenses	(444)	(1,238)
	22,588	**12,508**

9. Taxation

	2007 £'000	2006 £'000
CURRENT TAX		
UK Corporation tax at 30% (2006: 30%)	6,641	-
Change in prior year current tax	(15,600)	(4,395)
Total Current Tax	**(8,959)**	**(4,395)**
DEFERRED TAX		
Change in current year deferred tax	(35)	(15,154)
Change in prior year deferred tax	15,154	-
Total Deferred Tax	**15,119**	**(15,154)**
	6,160	**(19,549)**

The current tax charge for the year is lower than the standard rate of corporation tax in the UK at 30% (2006: 30%). The differences are explained below:

	2007 £'000	2006 £'000
Profit before tax	**22,178**	**28,272**
Corporation tax at 30%	6,653	8,482
Unutilised loss relief in previous year now recognised and utilised	-	(8,482)
Excess capital allowances over depreciation	(12)	-
Change in prior year current tax	(15,600)	(4,395)
	(8,959)	**(4,395)**

	2007 £'000	2006 £'000
Deferred Tax Asset		
Under FRS 19 deferred tax is provided in full on certain timing differences.		
Balance at start of year	15,154	-
Change in deferred tax	(15,119)	15,154
	35	**15,154**

Deferred taxation arises on differences between depreciation and capital allowances.

10. Investments

	Current Value		Historical Value	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Financial Investments				
Equities - Listed	-	21,256	-	19,119
Government fixed interest securities	240,081	201,860	238,151	205,417
Other listed fixed interest securities	34,190	30,890	34,461	31,983
Deposits with credit institutions	178,912	115,932	178,912	115,932
	453,183	**369,938**	**451,524**	**372,451**
Deposits with ceding undertakings	119	149	119	149
Total Investments	**453,302**	**370,087**	**451,643**	**372,600**
Investment in subsidiary	50	50	50	50

The Company has executed a US$100.0m collateralised letter of credit over its investment in government fixed interest securities in order to support its United States Trust Fund obligations. At 31 December 2007 the assets specifically collateralised amount to £50.2m.

11. Share Capital

	2007 £'000	2006 £'000
Authorised 11,400,000 (2005 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000
Allotted, called up and fully paid 11,400,000 (2005 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000

12. Creditors

All creditors are payable within a period of one year.

13. Reconciliation of movements in Shareholders' Funds

	Ordinary Share Capital £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2007	114,000	130,433	244,433
Profit for the year	-	16,018	16,018
Dividends paid	-	(21,200)	(21,200)
At 31 December 2007	114,000	125,251	239,251

In accordance with the amendment to FRS3 published in June 1999 no note of historical cost profits has been prepared as the company's only material gains and losses on assets relate to the holding and disposal of investments.

14. Segmental Information

	Direct marine & aviation £'000	Direct property £'000	Direct general liability & other £'000	Direct motor £'000	Total direct £'000	Re-insurance accepted £'000	Total £'000
2007							
Gross premiums written	149,173	185,871	286,668	389,423	1,011,135	467	1,011,602
Gross premiums earned	153,895	190,593	293,751	389,949	1,028,189	467	1,028,656
Gross claims incurred	140,775	128,328	135,933	274,643	679,679	(7,679)	672,000
Gross operating expenses	22,502	48,843	105,448	83,643	260,436	388	260,824
Gross technical result	(9,382)	13,422	52,370	31,663	88,073	7,758	95,832
Reinsurance balance	(9,845)	23,810	51,958	31,920	97,844	(277)	97,567
Net technical result	463	(10,388)	412	(257)	(9,770)	8,035	(1,735)
Net technical provisions	-	31,022	187,412	-	218,434	7,318	225,752

	Direct marine & aviation £'000	Direct property £'000	Direct general liability & other £'000	Direct motor £'000	Total direct £'000	Re-insurance accepted £'000	Total £'000
2006							
Gross premiums written	258,372	206,774	226,185	377,374	1,068,706	1,412	1,070,118
Gross premiums earned	287,939	145,392	219,654	366,418	1,019,404	1,412	1,020,816
Gross claims incurred	109,327	2,873	204,465	194,686	511,352	(10,633)	500,719
Gross operating expenses	30,033	47,523	56,022	100,424	234,002	580	234,582
Gross technical result	148,579	94,996	(40,833)	71,308	274,050	11,465	285,515
Reinsurance balance	(147,592)	(84,112)	45,140	(69,975)	(256,539)	(3,746)	(260,284)
Net technical result	987	10,884	4,307	1,332	17,511	7,719	25,230
Net technical provisions	-	34,137	155,479	-	189,616	18,057	207,673

Included within direct general liability and other segment are the following classes: travel, personal accident, legal insurance and health.

15. Contingent Liabilities

There were no contingent liabilities at 31 December 2007 other than those arising in the normal course of the Company's underwriting business (2006 - Nil).

16. Capital Commitments

There were no capital commitments at 31 December 2007 (2006 - Nil).

17. Leases

Annual commitments under a non cancellable operating lease are as follows:

	Land and Buildings	
	2007 £'000	2006 £'000
Operating leases which expire		
Within one year	170	-
Over five years	170	618
Operating lease payments made during the financial year	578	578

18. Group Companies

a) The Company is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG (the immediate and ultimate holding company), a company incorporated in Germany that issues publicly available consolidated accounts and accordingly the company is exempt from the disclosure requirements of FRS 8.

b) Included in creditors arising out of direct insurance operations are the following:

	2007 £'000	2006 £'000
Amounts due to holding company	66,425	64,971
Amounts due to fellow subsidiaries	300	1,627

c) Included in debtors arising out of direct insurance operations are the following:

	2007 £'000	2006 £'000
Amounts due from fellow subsidiaries	364	128

d) Included in other debtors and creditors are the following:

	2007 £'000	2006 £'000
Amounts due from holding company	15,609	-
Amounts due from subsidiary company	-	221
Amounts due to subsidiary company	5,336	-

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