# Annual Report 2008

Great Lakes
Munich Re Group

# Directory

## Directors

M. C. F. Hannan (Chairman)
P. Göschl (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

Munich Re Group
Plantation Place
30 Fenchurch Street
London EC3M 3AJ

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## Auditors

KPMG Audit Plc
8 Salisbury Square, London, EC4Y 8BB

## 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 2008 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 became operational in 2008 and have further enhanced the Company's ability to generate new business.

During the year the Company completed two formal Portfolio transfers affected by means of an insurance business transfer scheme (the "Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). On 30 July the High Court sanctioned the order for the Part VII transfer between the Company and QBE Insurance Company (Europe) Limited for the interest as co-insurer in the motor policies written under the Ensign brand between 1 January 2001 and 31 December 2004, the Scheme was completed on 31 July 2008.

On 16 December the High Court sanctioned an order for the general insurance and reinsurance business effected and/or carried out by Munich Re America, UK Branch, in the United Kingdom to be transferred to the Company, the Scheme became effective on 31 December 2008.

Further details about the transfers can be found in the notes to the accounts on page 20.

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. The Company finalised and paid out all the claims in the 2008 year. According to the terms, the Scheme of Arrangement, shall automatically terminate upon the expiration of the ten months period on 8 October 2009.

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 2008 business year produced a profit after tax of £70.6m in comparison with a profit of £16.0m in 2007.

The Directors approved and paid interim dividends of £13.5m during the course of the financial year (£21.2m in 2007) 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 2008 total £297.3m (2007 £239.3m).

In addition the directors have proposed a final dividend on 31 March 2009 of £22.3m.

**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 resource.

***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 2008 amounted to £863.6m (£855.3m in 2007).

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 2008 amounted to £260.2m (£155.9m in 2007).

The Company retains a proportion of 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 developed a risk based system for monitoring the agency business. 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 | 2008 | 2007 | |
|---|---|---|---|
| Gross Written Premium £m | 1,143.2 | 1,011.6 | Gross premium written before outwards reinsurance |
| Gross Loss Ratio | 68.0% | 65.3% | Ratio of gross claims incurred to gross earned premiums |
| Gross Combined Ratio | 93.2% | 90.7% | Ratio of gross claims incurred, commissions and expenses to gross premium earned |
| Administrative Expense Ratio | 1.7% | 1.6% | Ratio of administrative expenses to gross premium earned |
| Profit Before Tax £m | 98.8 | 22.2 | Operating profit from ordinary activities before tax |
| Shareholders' Funds £m | 297.3 | 239.3 | Excess of assets over liabilities supporting business model |
| Solvency Margin | 293.4% | 231.9% | Ratio of the adjusted capital to minimum capital requirements |

The overall level of gross written premium in 2008 was 13% higher compared to 2007. The key focus remains on profitable underwriting and cycle management, whereby reductions in our participation for certain classes of business have been 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 2008, the Company generated net investment income of £49.0m (2007 £22.6m). The major increase is attributable to capital movements on holding very high quality fixed interest securities that benefited from the increased performance due to credit issues impacting financial markets. Of the fixed interest securities portfolio 99.6% have a AAA rating and 93% are in government bond holdings.

During the third quarter of 2008 the Company decided to exit its money market investments by reinvesting the funds in the government bonds and currently has no material 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 committee also monitors and assesses performance of external and internal audit.
- 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 priorities 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 2008 and up to the date of this report are as follows:

| | Date of appointment | Date of resignation |
|---|---|---|
| P. Göschl | 1 July 2008 | |
| N. J. Parr | | 1 July 2008 |

P. Göschl holds one Ordinary share of £10 (2007 – one Share was held by N. J. Parr) 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 15 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 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

**M.A. Odell**
Company Secretary
31 March 2009

# 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 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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**

As described in the Statement of Directors' Responsibilities on page 7, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 Directors' Report is not 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 2008 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
31 March 2009

# Profit and Loss Account
## Technical Account - General Business
## 31 December 2008

| | Notes | 2008 £'000 | 2008 £'000 | 2007 £'000 | 2007 £'000 |
|---|---|---|---|---|---|
| **EARNED PREMIUMS, NET OF REINSURANCE** | | | | | |
| Gross premiums written | | | | | |
| Continuing activities | | | 1,142,748 | | 1,011,135 |
| Discontinued activities | | | 499 | | 467 |
| | 3 | | **1,143,247** | | **1,011,602** |
| Outwards reinsurance premiums | | | | | |
| Before assumption of liabilities under Part VII transfer | | 1,063,903 | | 990,131 | |
| Effect of assumption of liabilities under Part VII transfer | 4 | 94,628 | | - | |
| Outward reinsurance premiums | | | **1,158,531** | | **990,131** |
| Net premiums written | | | | | |
| Before assumption of liabilities under Part VII transfer | | 79,344 | | 21,471 | |
| Effect of assumption of liabilities under Part VII transfer | 4 | (94,628) | | - | |
| Net premiums written | | | **(15,284)** | | **21,471** |
| Change in the gross provision for unearned premiums | 16 | | (77,705) | | 17,054 |
| Change in the provision for unearned premiums - reinsurers' share | 16 | | (56,616) | | 6,819 |
| Change in the net provision for unearned premiums | | | **(21,089)** | | **10,235** |
| Earned premiums, net of reinsurance | | | (36,373) | | 31,706 |
| Investment income | | | 48,956 | | 22,588 |
| Other technical income, net of reinsurance | | | 18,409 | | 16,724 |
| **TOTAL TECHNICAL INCOME** | | | **30,992** | | **71,018** |

# Profit and Loss Account

## Technical Account - General Business
## 31 December 2008

| | Notes | 2008 £'000 | 2008 £'000 | 2007 £'000 | 2007 £'000 |
|---|---|---|---|---|---|
| **CLAIMS INCURRED, NET OF REINSURANCE** | | | | | |
| Claims paid | | | | | |
| - gross amount | | | 693,535 | | 653,250 |
| - reinsurers' share | | | 674,196 | | 646,721 |
| **- net of reinsurance** | | | **19,339** | | **6,529** |
| Change in the provision for claims | | | | | |
| - gross amount | 16 | | 30,782 | | 18,750 |
| - reinsurers' share before assumption of Liabilities under Part VII transfer | 16 | 29,131 | | (5,577) | |
| - effect of assumption of Liabilities under Part VII transfer | 16 | 94,628 | | - | |
| - reinsurers' share | | | 123,759 | | (5,577) |
| - net of reinsurance before assumption of Liabilities under Part VII transfer | | 1,651 | | 24,327 | |
| - effect of assumption of Liabilities under Part VII transfer | | (94,628) | | - | |
| **- net of reinsurance** | | | **(92,977)** | | **24,327** |
| Claims incurred net of reinsurance | | | (73,638) | | 30,856 |
| Net operating expenses | 6 | | 19,319 | | 19,309 |
| **TOTAL CHARGES** | | | **(54,319)** | | **50,165** |
| **BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS** | | | | | |
| Continuing activities | | | 77,881 | | 12,818 |
| Discontinued activities | | | 7,430 | | 8,035 |
| | | | **85,311** | | **20,853** |

# Profit and Loss Account

## Non-Technical Account
## 31 December 2008

| | Notes | 2008 £'000 | 2008 £'000 | 2007 £'000 | 2007 £'000 |
|---|---|---|---|---|---|
| **BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT** | | | **85,311** | | **20,853** |
| **INVESTMENTS** | | | | | |
| Investment income | 5 | 20,653 | | 19,171 | |
| Unrealised gains on investments | | 28,943 | | 3,861 | |
| Investment expenses and charges | | (640) | | (444) | |
| | | | 48,956 | | 22,588 |
| Investment income allocated to the technical account | | | (48,956) | | (22,588) |
| | | | **85,311** | | **20,853** |
| **OTHER CHARGES** | | | | | |
| Exchange gains | | | 13,472 | | 1,325 |
| **OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAX** | | | **98,783** | | **22,178** |
| Tax on profit on ordinary activities | 9 | | 28,152 | | 6,160 |
| **PROFIT ON ORDINARY ACTIVITIES AFTER TAX, RETAINED FOR THE FINANCIAL YEAR** | | | **70,631** | | **16,018** |

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

# Statement of Total Recognised Gains and Losses
## 31 December 2008

| | Notes | 2008<br>£'000 | 2007<br>£'000 |
|---|---|---|---|
| **PROFIT FOR THE FINANCIAL YEAR** | | **70,631** | **16,018** |
| Currency translation gains on foreign currency net investments | 15 | 888 | - |
| **TOTAL RECOGNISED GAINS RELATING TO THE YEAR** | | **71,519** | **16,018** |

In accordance with the amendment to FRS 3 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.

# Balance Sheet
## Assets
## 31 December 2008

| | Notes | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| **INVESTMENTS** | | | |
| Financial investments | 10 | 563,811 | 453,183 |
| Deposits with ceding undertakings | | 25 | 119 |
| | | **563,836** | **453,302** |
| Investment in Subsidiary | | **50** | **50** |
| **REINSURERS' SHARE OF TECHNICAL PROVISIONS** | | | |
| Unearned premium provision | 16 | 579,624 | 465,582 |
| Claims outstanding | 16 | 1,616,743 | 1,277,615 |
| | | **2,196,367** | **1,743,197** |
| **DEBTORS** | | | |
| Arising out of direct insurance operations | 11 | 146,429 | 96,857 |
| Arising out of reinsurance operations | 12 | 12,976 | 194 |
| Tax recoverable | | 433 | - |
| Deferred tax | 9 | 27 | 35 |
| Other debtors | 19 | 241 | 15,609 |
| | | **160,106** | **112,695** |
| **OTHER ASSETS** | | | |
| Cash at bank and in hand | 13 | **25,479** | **7,286** |
| **PREPAYMENTS AND ACCRUED INCOME** | | | |
| Accrued interest and rent | | 7,649 | 4,491 |
| Deferred acquisition costs | | 109,954 | 83,424 |
| | | **117,603** | **87,915** |
| **TOTAL ASSETS** | | **3,063,441** | **2,404,445** |

# Balance Sheet
## Liabilities
## 31 December 2008

| | Notes | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 14 | 114,000 | 114,000 |
| Profit and Loss Account | 15 | 183,270 | 125,251 |
| Shareholders' funds attributable to equity interests | | **297,270** | **239,251** |
| **TECHNICAL PROVISIONS - GROSS** | | | |
| Unearned premium provision | 16 | 644,031 | 498,794 |
| Claims outstanding | 16 | 1,849,287 | 1,470,155 |
| | | **2,493,318** | **1,968,949** |
| **PROVISIONS FOR OTHER RISKS AND CHARGES** | | | |
| Expense provision | 17 | 938 | - |
| | | **938** | **-** |
| **CREDITORS** | | | |
| Arising out of direct insurance operations | 18/19 | 104,542 | 85,493 |
| Arising out of reinsurance operations | | 408 | 659 |
| Deposit liabilities | | 20,196 | 12,660 |
| Taxation | | 26,660 | 3,943 |
| Other creditors | 18/19 | 12,508 | 11,769 |
| | | **164,314** | **114,524** |
| **ACCRUALS AND DEFERRED INCOME** | | | |
| Deferred reinsurance commissions | | 107,601 | 81,721 |
| **TOTAL LIABILITIES** | | **3,063,441** | **2,404,445** |

Approved by the Board on 31 March 2009

P. Göschl - 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.

## 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
Foreign currency transactions are translated at the rates of exchange at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

The results and balance sheets of overseas controlled entities that have a functional currency different from sterling (the presentation currency) are translated into sterling (the presentation currency) as follows:

- assets and liabilities are translated into sterling at the rate ruling at the balance sheet date;
- income and expenses are translated at cumulative average rates of exchange; and
- all resulting exchange differences are recognised as a separate component of equity.

### Proposed dividend
The directors have proposed a final ordinary dividend in respect of the current financial year of £22.3m. This has not been included within creditors as it was not approved before the year end.

## 3. Segmental Information

### (a) Analysis of gross premiums, profit before tax and net assets

| | Gross premiums written 2008 £'000 | Profit/(Loss) before tax 2008 £'000 | Net assets 2008 £'000 | Gross premiums written 2007 £'000 | Profit/(Loss) before tax 2007 £'000 | Net assets 2007 £'000 |
|---|---|---|---|---|---|---|
| **BY GEOGRAPHICAL SEGMENT** | | | | | | |
| United Kingdom | 1,113,176 | 99,286 | 291,353 | 1,011,602 | 22,178 | 239,251 |
| Switzerland | 15,052 | (338) | 184 | - | - | - |
| Australia | 15,019 | (165) | 5,733 | - | - | - |
| | **1,143,247** | **98,783** | **297,270** | **1,011,602** | **22,178** | **239,251** |

The directors consider the company to be involved in only one type of business, that is general insurance business.

### (b) Analysis of gross written premiums

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Resulting from contracts concluded by the company: | | |
| In the EU member state of its head office | 1,113,176 | 1,011,602 |
| Outside EU member states | 30,071 | - |
| | **1,143,247** | **1,011,602** |

**(c) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expense and the reinsurance balance**

| | Direct marine & aviation £'000 | Direct property £'000 | Direct general liability & other £'000 | Direct motor £'000 | Total direct £'000 | Re-insurance accepted £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | |
| Gross premiums written | 182,611 | 210,264 | 364,162 | 366,789 | 1,123,826 | 19,421 | 1,143,247 |
| Gross premiums earned | 172,426 | 180,921 | 323,530 | 379,740 | 1,056,617 | 8,925 | 1,065,542 |
| Gross claims incurred | 192,573 | 152,790 | 216,393 | 152,749 | 714,505 | 9,812 | 724,317 |
| Gross operating expenses | 13,620 | 43,576 | 134,584 | 74,899 | 266,679 | 1,665 | 268,344 |
| Gross technical result | (33,767) | (15,445) | (27,447) | 152,092 | 75,433 | (2,552) | 72,881 |
| Reinsurance balance | (34,186) | (15,884) | (65,559) | 162,442 | 46,813 | (10,287) | 36,526 |
| Net technical result | 419 | 439 | 38,112 | (10,350) | 28,620 | 7,735 | 36,355 |
| Net technical provisions | 280 | 71,880 | 224,313 | 217 | 296,690 | 261 | 296,951 |

| | 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 |

## 4. Part VII Transfer

On 31 December 2008 a portfolio of business from American Reinsurance Company (UK) Ltd 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 16 December 2008. The assets and liabilities transferred are set out below:

| | 2008 £'000 |
|---|---|
| **ASSETS** | |
| Cash | 84,598 |
| Debtors | 10,030 |
| | **94,628** |
| **LIABILITIES** | |
| Technical provisions | 94,628 |
| | **94,628** |

Following the transfer the Company reinsured 100% of this portfolio with Münchener Rückversicherungs-Gesellschaft AG. The premium payable was £94.6m as disclosed in the technical account.

On 31 July 2008 a portfolio of business from Ensign was transferred out of 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 30 July 2008. The assets and liabilities transferred are set out below :

| | 2008 £'000 |
|---|---|
| **ASSETS** | |
| Cash | 26,393 |
| | **26,393** |
| **LIABILITIES** | |
| Technical provisions | 26,393 |
| | **26,398** |

## 5. Investment Income

| | 2008<br>£'000 | 2007<br>£'000 |
|---|---|---|
| Interest receivable | 20,232 | 19,016 |
| Realised gains | 421 | 155 |
| | **20,653** | **19,171** |

## 6. Operating Expenses

| | 2008<br>£'000 | 2007<br>£'000 |
|---|---|---|
| Acquisition costs | 267,609 | 253,901 |
| Change in gross operating expense provision | (735) | - |
| Change in gross deferred acquisition costs | (16,192) | (9,919) |
| | **250,682** | **243,982** |
| Administrative expenses | 17,662 | 16,842 |
| Gross operating expenses | 268,344 | 260,824 |
| Reinsurance commissions and profit participation | (264,193) | (251,333) |
| Change in ceded operating expense provision | (938) | - |
| Change in deferred reinsurance commission | 16,106 | 9,818 |
| | **19,319** | **19,309** |

## 7. Administrative Expenses

All administration expenses, including auditors remuneration amounting to £186,000 (2007: £206,000) for audit services and £65,073 (2007: £547,382) 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 payable in respect of non audit services can be broken down as follows:

| | 2008<br>£'000 | 2007<br>£'000 |
|---|---|---|
| Services relating to taxation | 65 | 26 |
| All other services | - | 521 |
| | **65** | **547** |

In addition the total amount payable to associates of the auditors by the foreign branches of the Company for audit services amounts to £11,768 (2007: Nil) and £2,512 (2007: Nil) for non audit services.

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.

## 8. Remuneration of Directors

| | 2008<br>£'000 | 2007<br>£'000 |
|---|---|---|
| Directors' emoluments | 673 | 977 |
| Pension contributions | 304 | 299 |
| | **977** | **1,276** |

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 £137,807 (2007: £213,767) and pension contributions of £282,623 (2007: £165,352).

## 9. Taxation

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| UK Corporation tax at 28.5% (2007: 30%) | 28,144 | 6,641 |
| Change in prior year current tax | - | (15,600) |
| **Total Current Tax** | **28,144** | **(8,959)** |
| Change in current year deferred tax | 8 | (35) |
| Change in prior year deferred tax | - | 15,154 |
| **Total Deferred Tax** | **8** | **15,119** |
| | **28,152** | **6,160** |

The current tax charge for the year is higher than the standard rate of corporation tax in the UK at 28.5% (2007: 30%). The differences are explained below:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Profit before tax** | **98,783** | **22,178** |
| Corporation tax at 28.5% (2007: 30%) | 28,153 | 6,653 |
| Excess capital allowances over depreciation | (9) | (12) |
| Change in prior year current tax | - | (15,600) |
| | **28,144** | **(8,959)** |

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Deferred Tax Asset** | | |
| Under FRS 19 deferred tax is provided in full on certain timing differences. | | |
| Balance at start of year | 35 | 15,154 |
| Change in deferred tax | (8) | (15,119) |
| | **27** | **35** |

Deferred taxation arises on differences between depreciation and capital allowances.

## 10. Investments

| | Current Value | | Historical Value | |
|---|---|---|---|---|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| **Financial Investments** | | | | |
| Government fixed interest securities | 552,543 | 240,081 | 522,012 | 238,151 |
| Other listed fixed interest securities | 8,021 | 34,190 | 7,579 | 34,461 |
| Deposits with credit institutions | 3,247 | 178,912 | 3,247 | 178,912 |
| | **563,811** | **453,183** | **532,838** | **451,524** |

Government fixed interest securities includes guilt's, treasury notes and other government backed securities. The Company has fully funded an US$100.0m United States Trust Fund obligation comprising of investments in government fixed interest securities.

## 11. Debtors arising out of Direct Insurance operations

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts owed by intermediaries | 146,429 | 96,857 |

## 12. Debtors arising out of Reinsurance operations

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts owed by intermediaries | 52 | 194 |
| Amounts owed by policy holders | 12,924 | - |
| | **12,976** | **194** |

## 13. Cash at Bank and in hand

In the normal course of business letters of credit to the value of £298,397 (2007: £205,797) have been issued to counterparties to support insurance liabilities and other regulatory requirements. £298,397 (2007: £205,797) of these letters of credit are secured against bank deposits. The company also has a fully funded CAD$1.5m Canadian Trust Fund obligation comprising of bank deposits.

## 14. Share Capital

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Authorised<br>11,400,000 (2007 - 11,400,000) Ordinary Shares of £10 each | 114,000 | 114,000 |
| Allotted, called up and fully paid<br>11,400,000 (2007 - 11,400,000) Ordinary Shares of £10 each | 114,000 | 114,000 |

## 15. Reconciliation of movements in Shareholders' Funds

| | Ordinary Share Capital £'000 | Profit and Loss Account £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2008 | 114,000 | 125,251 | 239,251 |
| Profit for the year | - | 70,631 | 70,631 |
| Dividends paid | - | (13,500) | (13,500) |
| Currency translation differences on foreign currency net investments | - | 888 | 888 |
| At 31 December 2008 | 114,000 | 183,270 | 297,270 |

## 16. Technical Provisions

| | Provision for unearned premiums 2008 £'000 | Claims outstanding 2008 £'000 | Total 2008 £'000 | Provision for unearned premiums 2007 £'000 | Claims outstanding 2007 £'000 | Totals 2007 £'000 |
|---|---|---|---|---|---|---|
| **GROSS AMOUNT** | | | | | | |
| At beginning of the year | 498,794 | 1,470,155 | 1,968,949 | 516,050 | 1,451,437 | 1,967,487 |
| Currency translation differences | 67,532 | 253,722 | 321,254 | (202) | (32) | (234) |
| Movement in the provision | 77,705 | 30,782 | 108,487 | (17,054) | 18,750 | 1,696 |
| Liabilities assumed under Part VII | - | 94,628 | 94,628 | - | - | - |
| **At end of the year** | **644,031** | **1,849,287** | **2,493,318** | **498,794** | **1,470,155** | **1,968,949** |
| **REINSURANCE AMOUNT** | | | | | | |
| At beginning of the year | (465,582) | (1,277,615) | (1,743,197) | (472,866) | (1,286,948) | (1,759,814) |
| Currency translation differences | (57,426) | (215,369) | (272,795) | 465 | 3,756 | 4,221 |
| Movement in the provision | (56,616) | (29,131) | (85,747) | 6,819 | 5,577 | 12,396 |
| Liabilities ceded under Part VII | - | (94,628) | (94,628) | - | - | - |
| **At end of the year** | **(579,624)** | **(1,616,743)** | **(2,196,367)** | **(465,582)** | **(1,277,615)** | **(1,743,197)** |
| **NET TECHNICAL PROVISIONS** | | | | | | |
| **At end of the year** | **64,407** | **232,544** | **296,951** | **33,212** | **192,540** | **225,752** |
| **At beginning of the year** | **33,212** | **192,540** | **225,752** | **43,184** | **164,489** | **207,673** |

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 2008 of £47.0m (2007: £18.0m overprovision).

## 17. Provisions for other risks and charges

| | Expense provision 2008 £'000 |
|---|---|
| At beginning of the year | - |
| Movement in the year | 938 |
| **At end of the year** | **938** |

The creation of the expense provision relates to the assumption of liabilities under Part VII transfer for the American Reinsurance Company (UK) Ltd as per note 4 above.

The movement for the year in the expense provision is made up as follows:

| | 2008 £'000 |
|---|---|
| Additional provisions made in the year | 1,674 |
| Amounts used during the year | (736) |
| | **938** |

## 18. Creditors

All creditors are payable within a period of one year.

## 19. Group Companies

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

b) Included in debtors arising out of reinsurance operations are the following:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts due from holding company | 12,924 | - |

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts due to holding company | 91,092 | 66,425 |
| Amounts due to fellow subsidiaries | 3,110 | 300 |

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts due from fellow subsidiaries | 16,081 | 364 |

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts due from holding company | - | 15,609 |
| Amounts due from fellow subsidiaries | 241 | - |
| | | |
| Amounts due to subsidiary company | 3,250 | 5,336 |

## 20. Leases

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

| | Land and Buildings | |
|---|---|---|
| | 2008 £'000 | 2007 £'000 |
| Operating leases which expire | | |
| Within one year | - | 170 |
| Over five years | 170 | 170 |
| Operating lease payments made during the financial year | 170 | 578 |

## 21. Capital Commitments

There were no capital commitments at 31 December 2008 (2007 - Nil).

## 22. Contingent Liabilities

There were no contingent liabilities at 31 December 2008 other than those arising in the normal course of the Company's underwriting business (2007 - Nil).

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