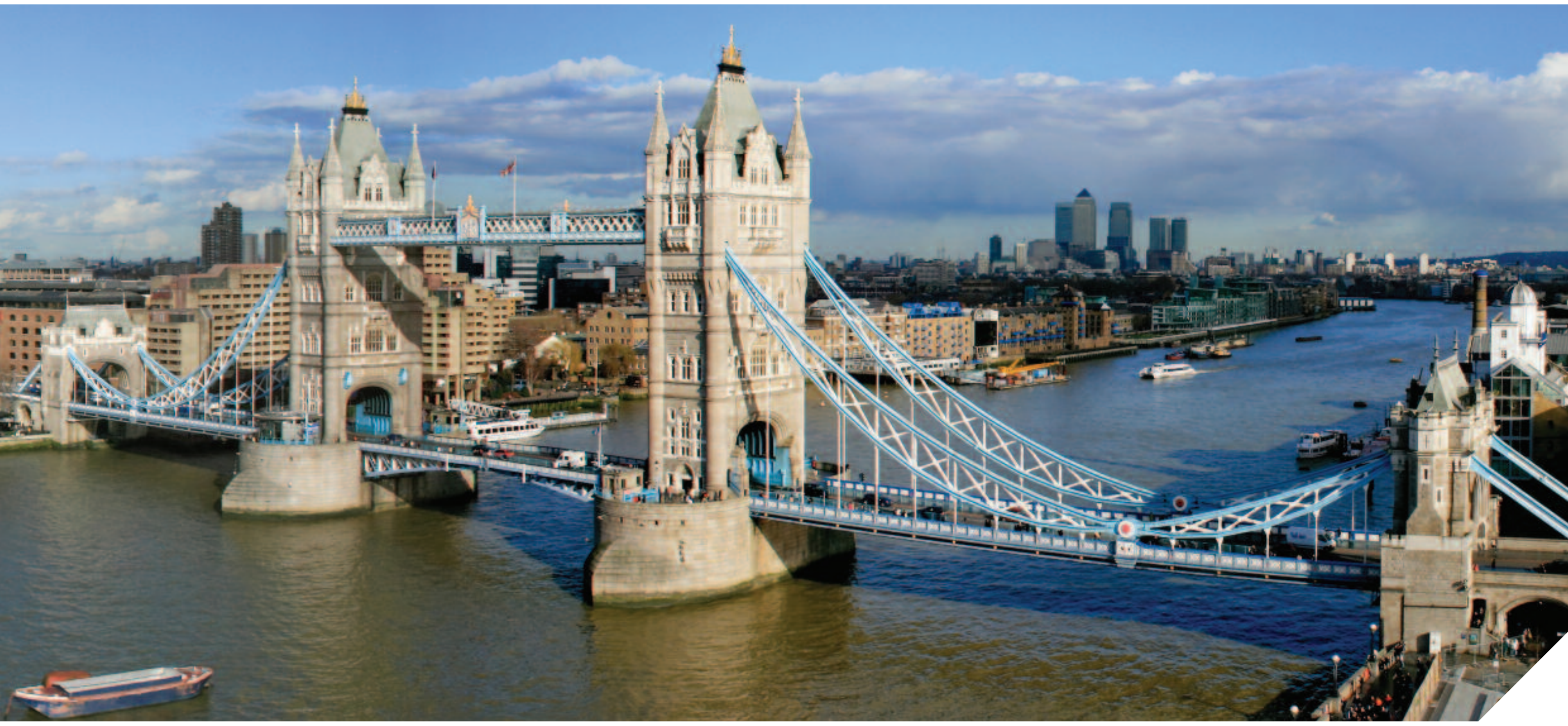

ANNUAL REPORT 2009

Great Lakes Reinsurance (UK) PLC

Munich RE

CONTENTS

DIRECTORY

Directors

A. Medniuk (Chairman)
P. Göschl (Chief Executive Officer)
G. Guelfand (Chief Financial Officer)
D. S. Höpke
A. Pröbstl
N. H. H. Smith

Secretary

S. Driver

Registered Office

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

Telephone: +44 (0)20 3003 7000
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Auditors

KPMG Audit Plc
1 Canada Square, London, E14 5AG

Bankers

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

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 2009 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. The Company operations in Sydney, Australia and in Zurich, Switzerland are conducted via its permanent establishments.

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 8 to 10. The 2009 business year produced an operating profit after tax of £49.0m in comparison with £70.6m in 2008.

The Directors approved and paid interim dividends of £55.2m during the course of the financial year (£13.5m in 2008) 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 2009 total £292.6m (2008 £297.3m).

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 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 2009 amounted to £1,078.4m (£863.6m in 2008). 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, Travel, 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 2009 amounted to £359.5m (£260.2m in 2008). 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 to the Munich Re 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 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 regular initiatives monitoring. The necessary challenge is provided by a quarterly Board review process. The strategy and resulting initiatives are communicated to staff and individual performance objectives are aligned with these. The Company is committed to empowering staff to make decisions in line with appropriate levels of authority.

Alongside other European insurers we are progressing towards compliance with the Solvency II Directive which is due for implementation in October 2012. A programme has been established as part of the wider MR Solvency II project and we are confident of meeting all the key dates and deliverables.

Key Performance Indicators ("KPIs")

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

KPIs	2009	2008	
Gross Written Premium £m	1,449.7	1,143.2	Gross premium written before outwards reinsurance
Gross Loss Ratio	74.6%	68.0%	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	98.0%	93.2%	Ratio of gross claims incurred, commissions and expenses to gross premium earned
Administrative Expense Ratio	1.7%	1.7%	Ratio of administrative expenses to gross premium earned
Profit Before Tax £m	67.5	98.8	Operating profit from ordinary activities before tax
Shareholders' Funds £m	292.6	297.3	Excess of assets over liabilities supporting business model
Solvency Margin	232.0%	293.4%	Ratio of the adjusted capital to minimum capital requirements

The overall level of gross written premium in 2009 was 26.8% higher compared to 2008. 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 2009, the Company generated net investment return of £11.2m (2008 £49.0m). The major decrease is attributable to capital movements on holding very high quality fixed interest securities (91% being government bond holdings) that benefited in 2008 from the increased performance due to credit issues impacting financial markets. There is no exposure to mortgage backed or collateralised debt instruments in the investment portfolio.

The Company has outsourced day to day investment management and administration to the group's in-house asset manager MEAG MUNICH ERGO AssetManagement GmbH.

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 and operational risks and that controls operate effectively. The committee also reviews the annual plans of the external and internal auditors and reviews reports received in respect of their findings.
- 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 a high priority for the Company. The Company endeavours to operate to a best practice standard to comply with both internal codes of conduct and procedural controls, as well as external statutory and regulatory requirements. The Company is also updating their risk management framework with the implementation of a new Internal Control System, whilst the existing RADaR system is further supported by a Tactical Risk Management process in the interim period. 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 shareholders.

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.

Environment

The Company does not have a major direct environmental impact as it is essentially service based and operates in a non-manufacturing industry. However, it is aware of its environmental responsibilities and actively strives to reduce its carbon footprint.

Directors & Directors' Interests

The directors of the Company at the date of this report are set out on page 2. Changes in directors during 2009 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
W. Morris		11 June 2009
J. Ludbrook		14 November 2009
M.C.F. Hannan		31 December 2009
A. Medniuk	1 January 2010	
A. Pröbstl	1 January 2010	

P. Göschl holds one Ordinary share of £10 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 2006, the directors of the Company are exempt from disclosing any interests in the shares of the ultimate holding company.

Major Shareholdings

The Company is a 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 384 of the Companies Act 2006, a resolution proposing their reappointment will be submitted at the annual general meeting.

By order of the Board

S. Driver
Company Secretary
31 March 2010

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 they have elected to prepare the financial statements in accordance with the UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or 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 judgments 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 2009 set out on pages 8 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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 explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mark J Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
1 Canada Square
London E14 5AG

31 March 2010

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
31 December 2009

	Notes	2009 £'000	2009 £'000	2008 £'000	2008 £'000
EARNED PREMIUMS, NET OF REINSURANCE					
Gross premiums written					
Continuing activities			1,449,670		1,142,748
Discontinued activities			71		499
	3		1,449,741		1,143,247
Outwards reinsurance premiums Before assumption of liabilities under Part VII transfer		1,369,032		1,063,903	
Effect of assumption of liabilities under Part VII transfer	4	-		94,628	
Outward reinsurance premiums			1,369,032		1,158,531
Net premiums written Before assumption of liabilities under Part VII transfer		80,709		79,344	
Effect of assumption of liabilities under Part VII transfer	4	-		(94,628)	
Net premiums written			80,709		(15,284)
Change in the gross provision for unearned premiums	16		(120,039)		(77,705)
Change in the provision for unearned premiums - reinsurers' share	16		(117,809)		(56,616)
Change in the net provision for unearned premiums			(2,230)		(21,089)
Earned premiums, net of reinsurance			78,479		(36,373)
Investment return allocated from the non-technical account			11,210		48,956
Other technical income, net of reinsurance			22,689		18,409
TOTAL TECHNICAL INCOME			**112,378**		**30,992**

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
31 December 2009

	Notes	2009 £'000	2009 £'000	2008 £'000	2008 £'000
CLAIMS INCURRED, NET OF REINSURANCE					
Claims paid					
- gross amount			687,239		693,535
- reinsurers' share			673,375		674,196
- net claims paid			**13,864**		**19,339**
Change in the provision for claims					
- gross amount	16		304,140		30,782
- reinsurers' share before assumption of Liabilities under Part VII transfer	16	309,154		29,131	
- effect of assumption of Liabilities under Part VII transfer	16	-		94,628	
- reinsurers' share			309,154		123,759
- net of reinsurance before assumption of Liabilities under Part VII transfer		(5,014)		1,651	
- effect of assumption of Liabilities under Part VII transfer		-		(94,628)	
- net change in the provision for claims			**(5,014)**		**(92,977)**
Claims incurred net of reinsurance			8,850		(73,638)
Net operating expenses	6		37,519		19,319
TOTAL CHARGES			**46,369**		**(54,319)**
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS					
Continuing activities			65,692		77,881
Discontinued activities			317		7,430
			66,009		**85,311**

PROFIT AND LOSS ACCOUNT

Non-Technical Account
31 December 2009

	Notes	2009 £'000	2009 £'000	2008 £'000	2008 £'000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT			**66,009**		**85,311**
INVESTMENT RETURN					
Investment income	5	7,214		20,653	
Unrealised gains on investments		4,903		28,943	
Investment expenses and charges		(907)		(640)	
Total investment return			11,210		48,956
Investment return allocated to the technical account			(11,210)		(48,956)
			66,009		**85,311**
OTHER CHARGES					
Exchange gains			1,517		13,472
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX			**67,526**		**98,783**
Tax on profit on ordinary activities	9		18,547		28,152
PROFIT ON ORDINARY ACTIVITIES AFTER TAX, RETAINED FOR THE FINANCIAL YEAR			**48,979**		**70,631**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

31 December 2009

	Notes	2009 £'000	2008 £'000
PROFIT FOR THE FINANCIAL YEAR		**48,979**	**70,631**
Currency translation gains on foreign currency net investments	15	1,517	888
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		**50,496**	**71,519**

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 2009

	Notes	2009 £'000	2008 £'000
INVESTMENTS			
Financial investments	10	510,994	563,811
Deposits with ceding undertakings		84,849	25
		595,843	**563,836**
Investment in Subsidiary		50	50
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium provision	16	657,343	579,624
Claims outstanding	16	1,768,312	1,616,743
		2,425,655	**2,196,367**
DEBTORS			
Arising out of direct insurance operations	11	346,925	146,429
Arising out of reinsurance operations	12	4	12,976
Tax recoverable		-	433
Deferred tax	9	21	27
Other debtors	20	13,285	241
		360,235	**160,106**
OTHER ASSETS			
Cash at bank and in hand	13	**42,177**	**25,479**
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		5,170	7,649
Deferred acquisition costs	17	169,497	109,954
		174,667	**117,603**
TOTAL ASSETS		**3,598,627**	**3,063,441**

BALANCE SHEET

Liabilities
31 December 2009

	Notes	2009 £'000	2008 £'000
CAPITAL AND RESERVES			
Called up share capital	14	114,000	114,000
Profit and Loss Account	15	178,566	183,270
Shareholders' funds attributable to equity interests		**292,566**	**297,270**
TECHNICAL PROVISIONS - GROSS			
Unearned premium provision	16	719,499	644,031
Claims outstanding	16	1,980,392	1,849,287
		2,699,891	**2,493,318**
PROVISIONS FOR OTHER RISKS AND CHARGES			
Expense provision	18	700	938
		700	**938**
CREDITORS			
Arising out of direct insurance operations	19/20	302,193	104,542
Arising out of reinsurance operations		1,339	408
Deposit liabilities		108,451	20,196
Taxation		11,945	26,660
Other creditors	19/20	22,307	12,508
		446,235	**164,314**
ACCRUALS AND DEFERRED INCOME			
Deferred reinsurance commissions	17	159,235	107,601
TOTAL LIABILITIES		**3,598,627**	**3,063,441**

These financial statements were approved by the Board of directors on 31 March 2010 and were signed on its behalf by:

P. Göschl - Chief Executive Officer G. Guelfand - Chief Financial Officer

NOTES TO THE ACCOUNTS
(forming part of the financial statements)

1. Basis of preparation of the Financial Statements

The financial statements of the Company have been prepared in accordance with the provisions of section 396 of the Companies Act 2006 including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies. The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules as modified to include the revaluation of investments and comply with the revised Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 2006.

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 5.

Under section 400 of the Companies Act 2006 an exemption from preparing consolidated accounts is available, subject to certain conditions. Following an assessment of these conditions it is appropriate for Great Lakes Reinsurance (UK) PLC to take advantage of the exemption to prepare consolidated accounts and therefore these financial statements are for the company only. Great Lakes Services Limited, a wholly owned subsidiary of Great Lakes Reinsurance (UK) PLC, has therefore not been consolidated in these accounts. The company had net assets at 31 December 2009 of £582,241 (2008: £1,663,241).

An overview of the Company's key sources of business, key performance indicators and high level strategy are set out in the Directors Report. The Company has significant financial resources together with prudent investment policies, high quality of assets, robust underwriting procedures controls and mitigating processes including, but not limited to, reinsurance. Consequently the Directors believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook. The Directors are confident that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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
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 return
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.

Taxation
The charge for taxation on general business is based on the profit for the year, and takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise in the foreseeable future.

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 ruling 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 ("branches") 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.

Exchange adjustments arising from the translation of foreign currency net investments in the overseas branches are dealt with in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the non-technical account.

Proposed dividend
The directors have proposed a final ordinary dividend in respect of the current financial year of £7.5m. 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 2009 £'000	Profit/(Loss) before tax 2009 £'000	Net assets 2009 £'000	Gross premiums written 2008 £'000	Profit/(Loss) before tax 2008 £'000	Net assets 2008 £'000
BY GEOGRAPHICAL SEGMENT						
United Kingdom	1,342,478	65,873	278,969	1,113,176	99,286	291,353
Switzerland	9,098	(358)	287	15,052	(338)	184
Australia	98,165	2,011	13,310	15,019	(165)	5,733
	1,449,741	**67,526**	**292,566**	**1,143,247**	**98,783**	**297,270**

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

	2009 £'000	2008 £'000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	1,342,478	1,113,176
Outside EU member states	107,263	30,071
	1,449,741	**1,143,247**

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

2009	Direct marine & aviation £'000	Direct property £'000	Direct general liability & other £'000	Direct motor £'000	Total direct £'000	Re-insurance accepted £'000	Total £'000
Gross premiums written	243,282	337,822	446,346	410,483	1,437,933	11,808	1,449,741
Gross premiums earned	212,848	310,770	400,007	386,300	1,309,925	19,777	1,329,702
Gross claims incurred	224,370	277,950	168,036	319,432	989,788	1,591	991,379
Gross operating expenses	22,699	76,085	171,422	37,347	307,553	4,136	311,689
Gross technical result	(34,221)	(44,161)	61,445	29,521	12,584	14,050	26,634
Reinsurance balance	(34,699)	(55,588)	18,630	29,663	(41,994)	13,829	(28,165)
Net technical result	**478**	**11,427**	**42,815**	**(142)**	**54,578**	**221**	**54,799**
Net technical provisions	**315**	**53,858**	**219,915**	**-**	**274,088**	**148**	**274,236**

2008	Direct marine & aviation £'000	Direct property £'000	Direct general liability & other £'000	Direct motor £'000	Total direct £'000	Re-insurance accepted £'000	Total £'000
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**

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
	26,393

5. Investment Income

	2009 £'000	2008 £'000
Interest receivable	13,370	20,232
Realised (losses)/gains	(6,156)	421
	7,214	**20,653**

6. Operating Expenses

	2009 £'000	2008 £'000
Acquisition costs	357,609	267,609
Change in gross operating expense provision	(244)	(735)
Change in gross deferred acquisition costs	(67,625)	(16,192)
	289,740	**250,682**
Administrative expenses	21,949	17,662
Gross operating expenses	311,689	268,344
Reinsurance commissions and profit participation	(333,645)	(264,193)
Change in ceded operating expense provision	244	(938)
Change in deferred reinsurance commission	59,231	16,106
	37,519	**19,319**

7. Administrative Expenses

All administration expenses, including UK auditors remuneration amounting to £202,750 (2008: £186,000) for audit services and £182,407 (2008: £65,073) 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:

	2009 £'000	2008 £'000
Services relating to taxation	181	65
All other services	1	-
	182	**65**

In addition the total amount paid to associates of the auditors by the foreign branches of the Company for audit services amounts to £51,315 (2008: £11,768) and £1,200 (2008: £2,512) 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

	2009 £'000	2008 £'000
Directors' emoluments	790	721
Pension contributions	37	81
Compensation for loss of office	202	269
	1,029	**1,071**

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 £335,133 (2008: £137,807) and pension contributions of £Nil (2008: £282,623).

9. Taxation

	2009 £'000	2008 £'000
UK Corporation tax at 28% (2008: 28.5%)	18,553	28,144
Change in prior year current tax	(12)	-
Total Current Tax	**18,541**	**28,144**
Change in current year deferred tax	6	8
Total Deferred Tax	**6**	**8**
	18,547	**28,152**

The 2009 current tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK at 28% (2008: 28.5%). The differences are explained below:

	2009 £'000	2008 £'000
Profit before tax	**67,526**	**98,783**
Corporation tax at 28% (2008: 28.5%)	18,907	28,153
Excess capital allowances over depreciation	(6)	(9)
Tax effect of franked investment income	(420)	-
Tax effect of permanent tax difference	72	-
Change in prior year current tax	(12)	-
	18,541	**28,144**

Deferred Tax Asset

Under FRS 19 deferred tax is provided in full on certain timing differences.

Balance at start of year	27	35
Change in deferred tax	(6)	(8)
	21	**27**

Deferred taxation arises on differences between depreciation and capital allowances.

10. Investments

	Current Value		Historical Value	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Financial Investments				
Government fixed interest securities	271,133	552,543	270,471	522,012
Other listed fixed interest securities	15,694	8,021	14,993	7,579
Deposits with credit institutions	224,167	3,247	224,167	3,247
	510,994	**563,811**	**509,631**	**532,838**

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

11. Debtors arising out of Direct Insurance operations

	2009 £'000	2008 £'000
Amounts owed by intermediaries	346,925	146,429

12. Debtors arising out of Reinsurance operations

	2009 £'000	2008 £'000
Amounts owed by intermediaries	4	52
Amounts owed by policy holders	-	12,924
	4	**12,976**

13. Cash at Bank and in Hand

In the normal course of business letters of credit to the value of £272,301 (2008: £298,397) have been issued to counterparties to support insurance liabilities and other regulatory requirements. £272,301 (2008: £298,397) of these letters of credit are secured against bank deposits. The company also has a fully funded CAD$2.8m (2008: CAD $1.5m) Canadian Trust Fund obligation comprising of bank deposits.

14. Share Capital

	2009 £'000	2008 £'000
Authorised 11,400,000 (2008 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000
Allotted, called up and fully paid 11,400,000 (2008 - 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 2009	114,000	183,270	297,270
Profit for the year	-	48,979	48,979
Dividends paid	-	(55,200)	(55,200)
Currency translation differences on foreign currency net investments	-	1,517	1,517
At 31 December 2009	114,000	178,566	292,566

16. Technical Provisions

	Provision for unearned premiums 2009 £'000	Claims outstanding 2009 £'000	Total 2009 £'000	Provision for unearned premiums 2008 £'000	Claims outstanding 2008 £'000	Totals 2008 £'000
GROSS AMOUNT						
At beginning of the year	644,031	1,849,287	2,493,318	498,794	1,470,155	1,968,949
Currency translation differences	(44,571)	(173,035)	(217,606)	67,532	253,722	321,254
Movement in the provision	120,039	304,140	424,179	77,705	30,782	108,487
Liabilities assumed under Part VII	-	-	-	-	94,628	94,628
At end of the year	**719,499**	**1,980,392**	**2,699,891**	**644,031**	**1,849,287**	**2,493,318**
REINSURANCE AMOUNT						
At beginning of the year	(579,624)	(1,616,743)	(2,196,367)	(465,582)	(1,277,615)	(1,743,197)
Currency translation differences	40,090	157,585	197,675	(57,426)	(215,369)	(272,795)
Movement in the provision	(117,809)	(309,154)	(426,963)	(56,616)	(29,131)	(85,747)
Liabilities ceded under Part VII	-	-	-	-	(94,628)	(94,628)
At end of the year	**(657,343)**	**(1,768,312)**	**(2,425,655)**	**(579,624)**	**(1,616,743)**	**(2,196,367)**
NET TECHNICAL PROVISIONS						
At beginning of the year	**64,407**	**232,544**	**296,951**	**33,212**	**192,540**	**225,752**
At end of the year	**62,156**	**212,080**	**274,236**	**64,407**	**232,544**	**296,951**

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 2009 of £79.9m (2008: £47.0m overprovision).

The overprovision is in respect of direct property of £29.9m and direct general liability and other of £57.0m.

17. Deferred Acquisition Costs

	2009 £'000	2008 £'000
GROSS AMOUNT		
At beginning of the year	109,954	83,424
Currency translation differences	(8,082)	10,338
Movement in the provision	67,625	16,192
At end of the year	**169,497**	**109,954**
REINSURANCE AMOUNT		
At beginning of the year	(107,601)	(81,721)
Currency translation differences	7,598	(9,774)
Movement in the provision	(59,232)	(16,106)
At end of the year	**(159,235)**	**(107,601)**
NET DEFERRED ACQUISITION COSTS		
At beginning of the year	**2,353**	**1,703**
At end of the year	**10,262**	**2,353**

18. Provisions for other risks and charges

	Expense provision 2009 £'000	Expense provision 2008 £'000
At beginning of the year	938	-
Movement in the year	(238)	938
At end of the year	**700**	**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:

	2009 £'000	2008 £'000
Additional provisions made in the year	-	1,674
Amounts used during the year	(238)	(736)
	(238)	**938**

19. Creditors

All creditors are payable within a period of one year.

20. 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 debtors arising out of reinsurance operations are the following:

	2009 £'000	2008 £'000
Amounts due from holding company	-	12,924

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

	2009 £'000	2008 £'000
Amounts due from holding company	1,265	-

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

	2009 £'000	2008 £'000
Amounts due from fellow subsidiaries	3,778	16,081

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

	2009 £'000	2008 £'000
Amounts due to holding company	263,693	91,092
Amounts due to fellow subsidiaries	-	3,110

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

	2009 £'000	2008 £'000
Amounts due from fellow subsidiaries	-	241
Amounts due to holding company	9,753	-
Amounts due to subsidiary company	2,692	3,250
Amounts due to fellow subsidiaries	185	-

g) During the course of 2009 the Company entered into a guarantee for pension liabilities in respect of its subsidiary, Great Lakes Services Limited. The guarantee is contingent on Great Lakes Services Limited's ability to fund pension deficit over the next 9 years amounts to £1,323,000.

21. Leases

	Land and Buildings	
	2009 £'000	2008 £'000
Operating leases which expire		
Over five years	170	170
Operating lease payments made during the financial year	170	170

22. Capital Commitments

There were no capital commitments as at 31 December 2009 (2008: Nil).

23. Contingent Liabilities

There were no other contingent liabilities at 31 December 2009 other than those arising in the normal course of the Company's underwriting business (2008: Nil).

Risk Solutions

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