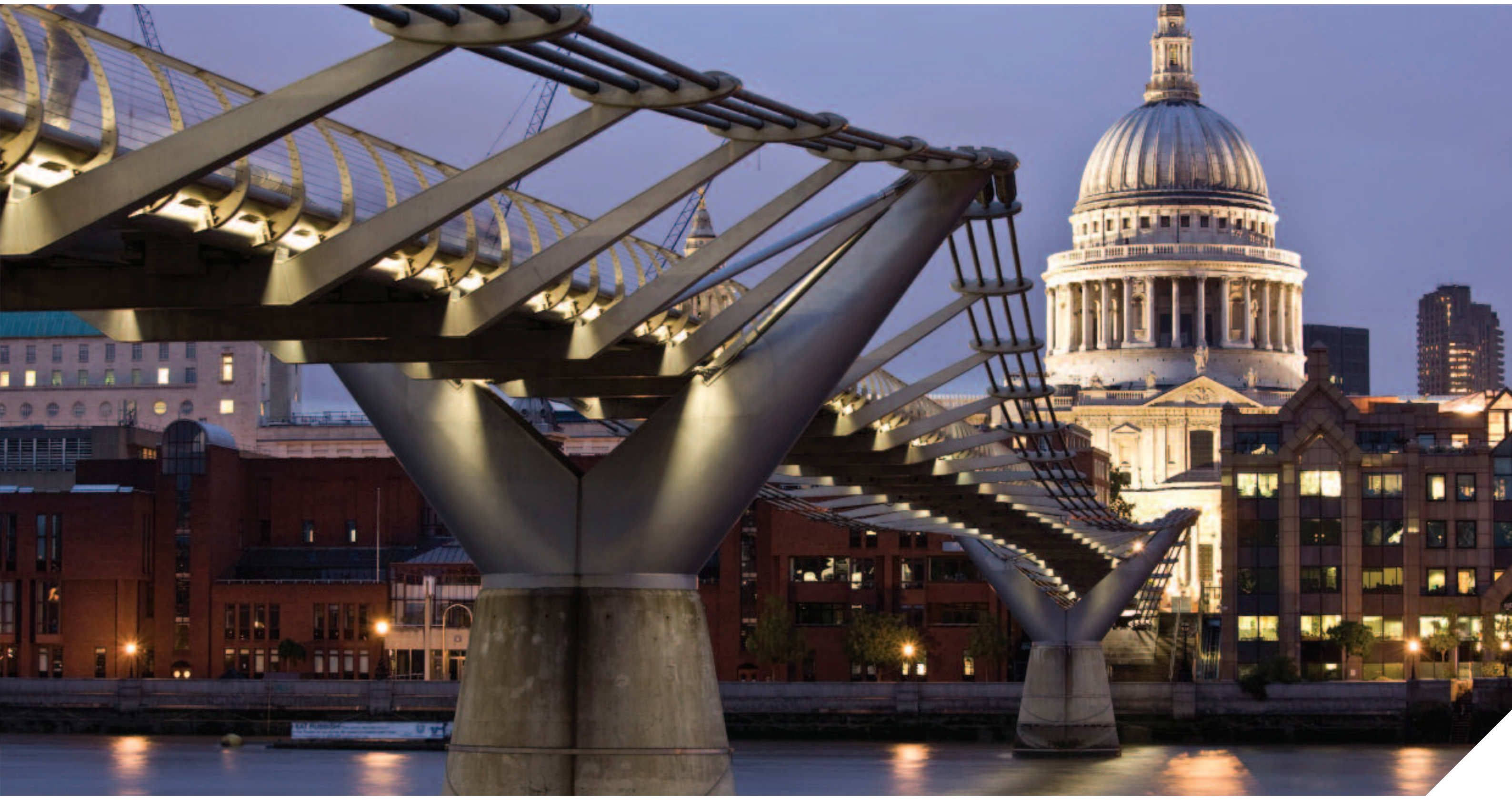

ANNUAL REPORT 2013

Great Lakes Reinsurance (UK) PLC

Risk Solutions

Munich RE

CONTENTS

DIRECTORY

Directors

A. J. Medniuk (Chairman)
R. H. Altenburger (Chief Executive Officer, appointed 1 October 2013)
G. Guelfand (Chief Financial Officer)
G. Funke
N. H. H. Smith
T. J. Carroll (appointed 1 January 2013)
C. Hoch (appointed 12 November 2013)

Secretary

S. G. Pendlebury

Registered Office

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

Telephone: +44 (0)20 3003 7000
Facsimile: +44 (0)20 3003 7010
Email: correspondence@greatlakes.co.uk

Auditors

KPMG Audit Plc
15 Canada Square, London, E14 5GL

Bankers

Barclays Bank PLC
The Bank of New York Mellon
HSBC Bank PLC
ANZ Banking Group Limited
Aargauische Kantonalbank
Zürcher Kantonalbank
CACEIS Bank Deutschland GmbH

Registered Number

02189462

STRATEGIC REPORT

Principal Activities and Business Review

Principal Activities

The Company is authorised by the Prudential Regulation Authority to transact all classes of non-life insurance and reinsurance in the United Kingdom and throughout the European Union via the Freedom of Services directive. The Company also conducts business via branches in Australia, New Zealand, Switzerland, Italy, and Ireland and is authorised to write surplus lines business in the USA. The Company is registered in England under registration number 02189462.

The Company is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG ("Munich Re"), a limited liability company incorporated in Germany and is therefore part of the Munich Re group. The Company acts as a specialist provider of insurance services for the group by using its licenses and relationship with other group members to develop insurance solutions for their customers.

High Level Strategy

The Company's principal mission is to add value to the Munich Re group by being a leading insurance solutions provider. The Company aims to achieve this by focusing on continuous operational improvements in conjunction with developments in internal and external environments.

Strategy is formulated during the annual planning process when a business plan is developed and approved, and implementation is controlled and measured via regular monitoring. The necessary challenge and approval 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 an appropriate level of authority.

1 January 2016 has now been confirmed as the implementation date for Solvency II, and the recent passing of the Omnibus II Directive by the EU parliament makes it more certain that this date will not change. In September 2013 EIOPA finalised its guidelines on preparing for Solvency II after considering comments received from regulators, industry, and other stakeholders. The guidelines set out what EIPOPA expects National Competent Authorities to require of firms in preparation for full Solvency II implementation in 2016. In light of these developments the Company has conducted a re-planning exercise to ensure it is able to fulfil all requirements, and is confident in its ability to do so.

Risk Management

Risk management is a key part of the Company's corporate management and company culture. Its purpose is not only to safeguard the Company's financial strength, enabling the Company to meet its obligations to clients and create sustained value, but also to protect the Company's reputation. This is achieved through risk management practices encompassing all areas of operation. The overall risk appetite of the Company is determined by the Board with support from Munich Re. The risk appetite laid down ensures an appropriate balance is maintained between business opportunities and risks taken against capital deployed. The risk appetite for each risk is reflected in business planning and integrated into the management of operations. The Board is accountable for risk topics for the Company as a whole and these are managed operationally through senior management and governed by the Audit, Risk and Capital and Investment Committees. The Remuneration Committee of the Board of Directors is responsible for ensuring that the structure of the remuneration arrangements for employees is aligned with the achievement of the Company's objectives and integrated with the application of its risk management principles.

Principal Risks and Uncertainties

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 Munich Re Group Risk Management framework and the Company's solvency capital calculations. This is used to manage capital requirements and to ensure the appropriate financial strength and capital adequacy support business growth, and meet the requirements of the shareholder, regulators, rating agencies, and the obligations to policyholders. A number of risk factors affect the Company's operating results and financial health. 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. The Company has a low risk appetite for these risks, and manages them accordingly.

Underwriting Risk Management

The Company has a medium appetite for insurance underwriting risk. Underwriting risk is defined as the risk of insured losses being higher than our expectations. Premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. Reserve risk is the risk of technical provisions raised to cover losses that have already been incurred being insufficient. These risks are managed through underwriting authority management, reserve calculation assumptions/methods and a range of other internal processes/controls.

Market Risk Management

The Company has a low appetite for market risk. Market risk is the potential for economic loss arising from market price fluctuations on the capital markets. Most of the Company's investments are fixed interest securities and short term cash deposits, the value of which are subject to interest rate and currency risk. The Company's investments are selected because they have similar duration, cash flow and currency characteristics as the underlying insurance liabilities in order to minimise these risks. Projected payment patterns of insurance liabilities are used to create a proposed benchmark investment portfolio in terms of asset liability matching. This benchmark investment portfolio is part of the mandate of the Company's investment manager, who reports on the comparison of the actual investment portfolio against the benchmark. The monitoring and performance of the investment portfolio is the responsibility of the Investment Committee, who report on this to the Board. Market value at risk is measured using key risk indicators and the results are reported to the Risk and Capital Committee.

The Company also faces currency risk from fluctuations in values in assets and liabilities from business denominated in foreign currencies which it undertakes directly or through its net investments in branches located in foreign jurisdictions. The Company partially mitigates this risk through a policy of matching assets and liabilities in its primary foreign currency exposures but otherwise accepts this risk as part of its market risk appetite.

Credit Risk Management

The Company has a low appetite for credit 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 governs investment exposure to a low risk in accordance with the Company's risk appetite. The Company's investment manager reports to the Investment Committee on compliance with the mandate in respect of credit risk exposure in the investment portfolio. The Investment Committee reports on this to the Board.

Under its business model the Company reinsures the majority of the business it writes to its parent, Munich Re, and is therefore exposed to concentrations of credit risk from this source. However this is within the Company's risk appetite due to the very good financial strength of Munich Re which is monitored on a regular basis by the Risk & Capital Committee which reports to the Board.

Liquidity Risk Management

The Company has a low appetite for liquidity risk. 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.

Operational Risk Management

The Company has a low appetite for operational risks with the exception of business obtained via delegated binding authorities where, subject to appropriate mitigation strategies, the Company has a medium risk appetite. The Company subscribes to Munich Re 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 agency business, which includes a programme of regular on site reviews. The Company identifies, records and assesses operational risks using the Internal Control System (ICS). This system is part of the Munich Re group wide method of monitoring operational risk, which provides a uniform system for managing risks across all areas of the Company's operations.

Regulatory Risk

The Company operates principally in the UK, but also operates branch activities in Australia, New Zealand, Switzerland, Italy and Ireland, as a surplus lines insurer in the United States, and under the Freedom of Services directive in the European Union. As such it operates under the jurisdiction of a number of different regulatory bodies. The Company recognises and endorses the value of establishing and maintaining good governance and compliance arrangements relationships with all the regulatory bodies with which it deals, and this a key principal of the way in which it does business.

Group Risk

Significant benefits are derived from being part of Munich Re group and group risk is primarily managed at the executive level. We are exposed to group risk in a number of areas, as we utilise group resources for asset management, systems, reinsurance and capital support. The activities of the wider group could affect our strategy and reputation, in particular our regulatory, social and ethical standing and client perception. Business objectives are aligned to the Munich Re group strategy and, where appropriate, the Board adheres to the relevant group policies, guidelines and reporting requirements.

Risk Monitoring and Control

A key risk report is produced quarterly and is provided to the Risk and Capital Committee who then report the key points to the Board. The report provides, for all risk categories, an updated view of the current risk position (including key events and quantitative changes) and compares the position with the Company's risk appetite.

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.

Business Review and Key Performance Indicators (KPIs)

The Company uses two distinct models for accessing insurance business – delegated acceptances via agency agreements and individual acceptances of large single risks. Overall, gross written premium in 2013 was 7.7% lower than in 2012, whilst the Company maintained its positive gross underwriting performance. Agency sourced business continues to provide the dominant share of the Company's gross written premium, at approximately 82%. The agency book is constantly monitored through a suite of quarterly KPIs to ensure the quality of the underlying business is maintained by the underlying MGAs. The key focus remains on profitable underwriting and cycle management. Gross loss and combined ratios have increased, mainly impacted by the current market environment. There was an increase in large loss activity during 2013 compared to the 2012 year which was largely benign in the way of large losses. The Company retains the business it underwrites through the Corporate Insurance Partner (CIP) division based in London. CIP offers a highly respected underwriting service to the world's 5,000 largest companies and leading players in their industries as well as their captives. Standard and bespoke solutions in the classes of Property, Engineering, Energy, and Casualty are developed through close cooperation with clients.

KPIs	2013	2012	
Gross Written Premium £m	1,917.2	2,077.4	Gross premium written before outwards reinsurance
Gross Loss Ratio	61.3%	53.5%	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	91.0%	81.5%	Ratio of gross claims incurred, commissions and expenses to gross earned premium
Administrative Expense Ratio	1.6%	1.6%	Ratio of administrative expenses to gross earned premium
(Loss) Profit Before Tax £m	(2.1)	37.6	Operating profit from ordinary activities before tax
Shareholder's Funds £m	345.8	373.7	Excess of assets over liabilities supporting business model
Solvency Margin	193.8%	209.8%	Ratio of the adjusted capital to minimum capital requirements

The loss before tax of £2.1m for the year ended 31 December 2013 was caused by the increased cost of reinsurance protections on the CIP London portfolio, and the decrease in the investment result for 2013. The decrease in the investment return was primarily due to an increase in bond yields resulting in unrealized losses. The Company invests in a conservative portfolio of fixed interest instruments. 90% of the total investment portfolio is invested in government bonds. Approximate exposures by country for the total bond portfolio are: United Kingdom 54%, United States 24%, Germany 9%, Australia 4% and Others 9%. The Company's investment portfolio stands at £546.6m as at 31 December 2013 compared to £518.3m in 2012.

Shareholder's funds as at 31 December 2013 total £345.8m (2012 £373.7m). The Company's solvency margin remains very strong. The Company continually monitors its solvency adequacy and maintains a very satisfactory margin to ensure compliance with regulatory requirements and promote efficient capital management. The Company is rated A+ Superior by A M Best and AA- Strong by Standard and Poor's.

By order of the Board

S. G. Pendlebury
Company Secretary,
28 March 2014

DIRECTORS' REPORT

Information disclosed within the Strategic Report
In accordance with s414C(11) of the Companies Act 2006, the Company has set out the following information within the Strategic Report (on pages 3 to 5), which would otherwise be contained in the Directors' Report:

- Financial risk management objectives and policies;
- The Company's exposure to significant risks and uncertainties; and
- The Company's objectives for the future development of the Company.

Financial Instruments
The Company invests in financial instruments principally to provide cash flows for the payment of liabilities that arise from the insurance contracts it writes. This gives rise to various investment related risks, including market risk, credit risk, and liquidity risk, which are described in the Strategic Report. The financial risk management objectives and policies related to these risks are established in an investment mandate which sets out the goals for the performance of the investment portfolio while complying with defined risk limits. The investment mandate only allows investment in fixed income securities of investment grade and cash, with limits on the total amount of corporate bonds as a percentage of the overall portfolio and also per issuer. Note 9 provides further information on the Company's investment portfolio.

Proposed Dividend
The Directors do not recommend the payment of a dividend.

Directors & Directors' Interests
The directors of the Company at the date of this report are set out in the Directory. Changes in directors during 2013 and up to the date of this report are as follows:

	Date of resignation	Date of appointment
T.J. Carroll		1 January 2013
P. Göschl	1 October 2013	
R.H. Altenburger		1 October 2013
A. A. Pröbstl	4 July 2013	
C. Hoch		12 November 2013

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.

Management and Employees
The Company has a management agreement with Munich Re UK Services Limited, a wholly owned subsidiary of Munich Re. Munich Re UK Services Limited employs all the Company's UK personnel providing full administration management services. Accordingly the Company has no employees of its own.

Political contributions
The Company made no political donations or incurred any political expenditure during the year.

Major Shareholdings
The Company is a wholly owned subsidiary of Munich Re, a company incorporated in Germany. Copies of the Munich Re group accounts are available from Königinstrasse 107, 80802, Munich, Germany.

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
Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board

S. G. Pendlebury
Company Secretary,
28 March 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, 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 that law they have elected to prepare the financial statements in accordance with 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 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 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 AUDITOR'S 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 2013 set out on pages 9 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 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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, and express an opinion on, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss 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 Strategic Report and 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 Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

28 March 2014

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Gross premiums written	3	1,917,223	2,077,422
Outwards reinsurance premiums		1,799,210	1,920,446
Net premiums written		**118,013**	**156,976**
Change in the gross provision for unearned premiums	15	30,964	(84,794)
Change in the provision for unearned premiums - reinsurers' share	15	29,049	(56,494)
Change in the net provision for unearned premiums		1,915	(28,300)
Earned premiums, net of reinsurance		**119,928**	**128,676**
Investment return allocated from the non-technical account		(3,611)	12,433
Other technical income, net of reinsurance		26,437	30,064
TECHNICAL INCOME		**142,754**	**171,173**

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Gross claims paid		996,724	900,888
Reinsurers' share		940,059	861,568
Claims paid - net		**56,665**	**39,320**
Change in the gross provision for claims	15	197,436	165,518
Reinsurers' share	15	188,743	145,201
Change in the provision for claims - net		**8,693**	**20,317**
Claims incurred net of reinsurance		65,358	59,637
Net operating expenses	5	78,755	70,575
TECHNICAL EXPENSES		**144,113**	**130,212**
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**(1,359)**	**40,961**

PROFIT AND LOSS ACCOUNT

Non-Technical Account
for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**(1,359)**	**40,961**
INVESTMENT RETURN			
Investment income	4	9,379	15,392
Unrealised losses on investments		(12,243)	(2,070)
Investment expenses and charges		(747)	(889)
Total investment return		(3,611)	12,433
Investment return allocated to the technical account		3,611	(12,433)
		(1,359)	**40,961**
Exchange losses		(725)	(3,331)
(LOSS) PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	3, 6	**(2,084)**	**37,630**
Tax credit (charge) on ordinary activities	8	398	(8,997)
(LOSS) PROFIT ON ORDINARY ACTIVITIES AFTER TAX		**(1,686)**	**28,633**

The loss for the year and the profit for the prior year relate to continuing activities. The notes on pages 15 to 28 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
(LOSS) PROFIT FOR THE YEAR		**(1,686)**	**28,633**
Currency translation losses on foreign currency net investments	14	(5,210)	(983)
TOTAL RECOGNISED (LOSSES) GAINS FOR THE YEAR		**(6,896)**	**27,650**

In accordance with the amandment to FRS 3 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.

The notes on pages 15 to 28 form part of these financial statements.

BALANCE SHEET

Assets
as at 31 December 2013

	Notes	2013 £'000	2012 £'000
INVESTMENTS			
Financial investments	9	546,609	518,327
Deposit assets		71,913	77,334
		618,522	**595,661**
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium	15	841,660	889,286
Claims outstanding	15	2,355,494	2,194,678
		3,197,154	**3,083,964**
DEBTORS			
Arising out of direct insurance operations	10	499,761	488,818
Deferred tax	8	1,182	9
Taxation		3,623	-
Other debtors	11	44,588	28,854
		549,154	**517,681**
OTHER ASSETS			
Cash at bank	12	**67,720**	**133,667**
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		4,934	5,018
Deferred acquisition costs	16	229,730	234,346
		234,664	**239,364**
TOTAL ASSETS		**4,667,214**	**4,570,337**

BALANCE SHEET

Liabilities
as at 31 December 2013

	Notes	2013 £'000	2012 £'000
CAPITAL AND RESERVES			
Called up share capital	13	114,000	114,000
Profit and loss account	14	231,839	259,735
Shareholder's funds	3, 14	**345,839**	**373,735**
TECHNICAL PROVISIONS - GROSS			
Unearned premium	15	938,460	990,863
Claims outstanding	15	2,631,322	2,468,355
		3,569,782	**3,459,218**
PROVISIONS FOR OTHER RISKS AND CHARGES	17	**1,200**	**343**
CREDITORS			
Arising out of direct insurance operations	18	392,228	389,303
Deposit liabilities		108,025	112,003
Taxation		-	6,148
Other creditors	19	37,739	16,365
		537,992	**523,819**
ACCRUALS AND DEFERRED INCOME			
Deferred reinsurance commissions	16	212,401	213,222
TOTAL LIABILITIES		**4,667,214**	**4,570,337**

The notes on pages 15 to 28 form part of these financial statements.

Approved by the board on 28 March 2014.

R. H. Altenburger - Chief Executive Officer G. Guelfand - Chief Financial Officer

NOTES TO THE ACCOUNTS

1. Basis of preparation of the Financial Statements

The financial statements of Great Lakes Reinsurance (UK) PLC ("the Company") have been prepared in accordance with the provisions of Sections 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 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 2005 (as amended 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.

An overview of the Company's key sources of business, key performance indicators and high level strategy are set out in the Strategic 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. 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.

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2. Accounting Policies

The following accounting policies have been applied consistently within the accounts and from one financial year to another, in dealing with items which are considered material in relation to the financial statements.

Premiums

Written premiums comprise the amount receivable including an 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. Pipeline premiums are those collected by intermediaries but not yet received, and are assessed based on estimates from underwriting or past experience. Premiums are stated before deduction of commissions but net of taxes and duties levied on premiums.

Premiums are earned over the term of the insurance policies to which they relate, in accordance with the risk coverage provided by the underlying insurance policies.

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

Unearned premiums

Premiums that relate to the unexpired terms of insurance policies in force at the balance sheet date are deferred as unearned premiums. These unearned premiums are taken to the Profit and Loss account so that premiums are recognised over the period of risk coverage provided by the underlying insurance policies.

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 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. IBNR claims may often not emerge until many years after the underling 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 involved.

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. This includes:

- 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 (including the effect of currency fluctuations);
- the impact of large losses; and
- movements in industry benchmarks.

Specific information on individual claims are also taken into account, based for example on reports of loss adjusters. Furthermore, large claims are generally assessed separately, being measured on a case by case basis or projected separately in order to prevent distortions of the general claims development pattern.

A range of techniques are used to estimate the required level of provisions. This generates a deeper understanding of the trends inherent in the data and also assists in providing a range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the class of business 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. Again, a range of statistical techniques are used in making these estimates.

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 claims emanating from unexpired risks in respect of the contracts concluded before the end of the financial year which continue in force after that date and where claims are expected to exceed the unearned premiums under these policies, after deduction of deferred acquisition costs. In calculating such a provision all business segments are considered individually and are stated after taking into account future investment income.

Equalisation Provision

Amounts are set aside as equalisation provisions in accordance with regulatory requirements for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be included within technical provisions.

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 tax assets are recognised to the extent that it is more likely than not that they will be recovered. 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". No provision is made for taxation of permanent differences.

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. Non monetary assets and liabilities transacted in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction.

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 in the Statement of Recognised Gains and Losses.

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.

3. Segmental Information

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

	Gross premiums written 2013 £'000	Profit (Loss) before tax 2013 £'000	Net assets 2013 £'000	Gross premiums written 2012 £'000	Profit (Loss) before tax 2012 £'000	Net assets 2012 £'000
BY GEOGRAPHICAL SEGMENT						
United Kingdom	1,565,583	(9,410)	316,606	1,769,636	30,602	339,129
Switzerland	5,547	1,231	2,542	23,957	886	3,583
Italy	13,327	(121)	(41)	12,760	(29)	77
Australia	281,498	5,479	26,514	257,851	6,041	30,512
New Zealand	8,003	127	486	7,159	91	394
Ireland	43,265	610	707	6,059	39	40
	1,917,223	**(2,084)**	**346,814**	**2,077,422**	**37,630**	**373,735**

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

	2013 £'000	2012 £'000
Resulting from contracts concluded by the Company:		
In the EU member state of its head office	1,627,722	1,788,455
Outside EU member states	289,501	288,967
	1,917,223	**2,077,422**

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

2013	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	226,010	373,866	634,840	679,257	1,913,973	3,250	1,917,223
Gross premiums earned	235,803	398,735	599,757	710,642	1,944,937	3,250	1,948,187
Gross claims incurred	148,593	157,079	372,359	516,129	1,194,160	-	1,194,160
Gross operating expenses	28,325	111,043	260,858	178,224	578,450	-	578,450
Gross technical result	58,885	130,613	(33,460)	16,289	172,327	3,250	175,577
Reinsurance balance	65,662	126,585	(39,095)	16,996	170,148	3,177	173,325
Net technical result	**(6,777)**	**4,028**	**5,635**	**(707)**	**2,179**	**73**	**2,252**
Net technical provisions	**14,866**	**97,295**	**260,464**	**-**	**372,625**	**3**	**372,628**

2012	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	290,131	450,546	585,682	745,077	2,071,436	5,986	2,077,422
Gross premiums earned	281,979	424,484	547,515	732,664	1,986,642	5,986	1,992,628
Gross claims incurred	104,369	227,669	198,166	536,289	1,066,493	(87)	1,066,406
Gross operating expenses	39,483	99,888	231,290	187,428	558,089	-	558,089
Gross technical result	138,127	96,927	118,059	8,947	362,060	6,073	368,133
Reinsurance balance	138,305	92,458	94,355	8,639	333,757	5,848	339,605
Net technical result	**(178)**	**4,469**	**23,704**	**308**	**28,303**	**225**	**28,528**
Net technical provisions	**6,144**	**98,658**	**270,449**	**-**	**375,251**	**3**	**375,254**

4. Investment Income

	2013 £'000	2012 £'000
Investment Income	8,388	10,559
Realised gains	991	4,833
	9,379	**15,392**

5. Net Operating Expenses

	2013 £'000	2012 £'000
Acquisition costs	550,053	551,541
Change in gross operating expense provision	857	(56)
Change in gross deferred acquisition costs (note 16)	(4,078)	(25,180)
	546,832	**526,305**
Administrative expenses	31,618	31,784
Gross operating expenses	578,450	558,089
Reinsurance commissions and profit participation	(504,623)	(506,175)
Change in ceded operating expense provision	(857)	56
Change in deferred reinsurance commission (note 16)	5,785	18,605
	78,755	**70,575**

6. (Loss) Profit on Ordinary Activities before Tax

(Loss) Profit on ordinary activities before tax is stated after charging:

	2013 £'000	2012 £'000
AUDITORS' REMUNERATION		
Audit of these financial statements	191	181
Other services pursuant to legislation	93	99
Other services relating to taxation	41	65
All other services	20	25

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

7. Remuneration of Directors

	2013 £'000	2012 £'000
Directors' emoluments	912	943
Pension contributions	11	18
	923	**961**

The directors' remuneration consists of the emoluments paid to the directors by the Company and Munich Re UK Services Limited. The emoluments of the highest paid director for the year were £483,430 (2012: £552,427) and pension contributions of £Nil (2012: £Nil). There was one director for whom retirement benefits are accruing in respect of qualifying services under a money purchase plan.

8. Taxation

	2013 £'000	2012 £'000
Corporation tax charge at 23.25%	(1,674)	(8,960)
Change in prior year current tax	899	(33)
Total Current Tax Charge	**(775)**	**(8,993)**
Change in current year net deferred tax	1,299	(3)
Impact of UK Change in tax rate	(126)	(1)
Total Deferred Tax	**1,173**	**(4)**
Total Tax	**398**	**(8,997)**

(Loss) Profit before tax	**(2,084)**	**37,630**
Corporation tax credit (charge) at 23.25%	485	(9,219)
Excess capital allowances over depreciation	1	3
Tax effect of franked investment income	2	291
Tax rate differential on foreign taxes paid	(851)	-
Timing differences on foreign taxes paid	(1,299)	-
Tax effect of other permanent differences	(12)	(35)
Under recovery (provision) relating to prior periods	899	(33)
	(775)	**(8,993)**

Deferred Tax Asset

Balance at start of year	9	1,152
Change in deferred tax	1,299	(1,142)
Impact of change in UK Tax rate	(126)	(1)
	1,182	**9**

The Finance Act 2013 received Royal Assent on 17 July 2013 and introduced reductions in the UK corporation tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015). These reductions will reduce the company's future current charge accordingly. The deferred tax asset has been calculated based on the rate of 21% enacted at the balance sheet date.

9. Investments

	Current Value		Historical Value	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Financial Investments				
Government fixed interest securities	492,174	465,452	469,845	456,280
Other listed fixed interest securities	54,404	52,844	80,952	52,874
Deposits with credit institutions	31	31	31	31
	546,609	**518,327**	**550,828**	**509,185**

Government fixed interest securities included gilts, treasury notes and other government backed securities. The Company has fully funded a US$108.9m United States Trust Fund obligation; a US$60.2m Swiss tied assets obligation; and a CAD$5.1m Canadian Trust Fund obligation. These comprise investments in government fixed interest securities.

10. Debtors arising out of direct insurance operations

	2013 £'000	2012 £'000
Amounts owed by intermediaries	494,116	476,175
Amounts owed by group companies	5,645	12,643
Total	**499,761**	**488,818**

Amounts receivable by the Company for intermediaries and group companies are due within one year.

11. Other Debtors

	2013 £'000	2012 £'000
Deposit recoverable from parent company	16,685	-
Salvage and subrogation recoverable	27,797	28,696
Other debtors	106	158
Total	**44,588**	**28,854**

12. Cash at Bank

The cash at bank balance of £67.7m (2012: £133.7m) includes accounts totalling £8.1m (2012: £18.1m) which have been set aside to secure letters of credit and guarantees issued in the normal course of business, and in respect of other statutory requirements. As such these balances are restricted from general use.

13. Share Capital

	2013 £'000	2012 £'000
Allotted, called up and fully paid 11,400,000 (2012 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000

14. Reconciliation of movements in Shareholder's Funds

	Ordinary Share Capital £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2013	114,000	259,735	373,735
Loss for the year	-	(1,686)	(1,686)
Dividends paid	-	(21,000)	(21,000)
Currency translation differences on foreign currency net investments	-	(5,210)	(5,210)
At 31 December 2013	**114,000**	**231,839**	**345,839**

15. Technical Provisions

	Unearned premiums 2013 £'000	Claims outstanding 2013 £'000	Total 2013 £'000	Unearned premiums 2012 £'000	Claims outstanding 2012 £'000	Total 2012 £'000
GROSS AMOUNT						
At beginning of the year	990,863	2,468,355	3,459,218	920,211	2,351,688	3,271,899
Currency translation differences	(21,439)	(34,469)	(55,908)	(14,142)	(48,851)	(62,993)
Movement in the provision	(30,964)	197,436	166,472	84,794	165,518	250,312
At end of the year	**938,460**	**2,631,322**	**3,569,782**	**990,863**	**2,468,355**	**3,459,218**
REINSURANCE AMOUNT						
At beginning of the year	(889,286)	(2,194,678)	(3,083,964)	(844,761)	(2,092,067)	(2,936,828)
Currency translation differences	18,577	27,927	46,504	11,969	42,590	54,559
Movement in the provision	29,049	(188,743)	(159,694)	(56,494)	(145,201)	(201,695)
At end of the year	**(841,660)**	**(2,355,494)**	**(3,197,154)**	**(889,286)**	**(2,194,678)**	**(3,083,964)**
NET TECHNICAL PROVISIONS						
At beginning of the year	**101,577**	**273,677**	**375,254**	**75,450**	**259,621**	**335,071**
At end of the year	**96,800**	**275,828**	**372,628**	**101,577**	**273,677**	**375,254**

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 underwriting years' liabilities amounted to an overprovision in 2013 of £41.1m (2012 of £34.7m overprovision).

The overprovision was in respect of direct general liability of £30.6m (2012: of £29.6m) and direct property and other of £10.5m (2012: of £5.1m).

16. Deferred Acquisition Costs

	2013 £'000	2012 £'000
GROSS AMOUNT		
At beginning of the year	234,346	212,424
Currency translation differences	(8,694)	(3,258)
Movement in the provision	4,078	25,180
At end of the year	**229,730**	**234,346**
REINSURANCE AMOUNT		
At beginning of the year	(213,222)	(197,290)
Currency translation differences	6,606	2,673
Movement in the provision	(5,785)	(18,605)
At end of the year	**(212,401)**	**(213,222)**
NET DEFERRED ACQUISITION COSTS		
At beginning of the year	**21,124**	**15,134**
At end of the year	**17,329**	**21,124**

17. Provisions for other risks and charges

	Expense provision 2013 £'000	Expense provision 2012 £'000
At beginning of the year	343	399
Movement in the year	857	(56)
At end of the year	**1,200**	**343**

The provision for risks and other charges is for an expense provision in relation to the assumption of liabilities under a Part VII transfer that took place in 2008.

18. Creditors arising out of Direct Insurance Operations

	2013 £'000	2012 £'000
Amounts owed to intermediaries	48,948	28,867
Amounts owed to group companies	343,280	360,436
	392,228	**389,303**

Amounts due to intermediaries and group companies are payable within one year.

19. Other Creditors

	2013 £'000	2012 £'000
Insurance premium tax liability	14,752	15,831
Deposit payable to third party	16,685	-
Other payables	6,302	534
	37,739	**16,365**

20. Group Companies

Parent Company
The Company is a wholly owned subsidiary of Munich Re which is the immediate and ultimate parent company, incorporated in Germany. The largest group in which the results of the Company are consolidated is that headed by Munich Re and no other group financial statements include the results of the Company.

21. Leases

	Land and Buildings 2013 £'000	2012 £'000
Annual commitments under non-cancellable operating leases are as follows:		
Operating lease which expires in under five years	170	170
Operating lease payments made during the financial year	170	170

22. Contingent Liabilities and Guarantees

In 2009 the Company agreed to guarantee payments made by Great Lakes Services Limited into a pension scheme of which certain employees of Great Lakes Services Limited are members, with payments of £368,500 made on an annual basis until 2015 by Great Lakes Services Limited. As at 31 December 2011, the assets, liabilities and obligations of Great Lakes Services Limited were transferred to Munich Re UK Services Limited. Therefore the Company's guarantee is for the payments of Munich Re UK Services Limited rather than Great Lakes Services Limited.

Risk Solutions

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