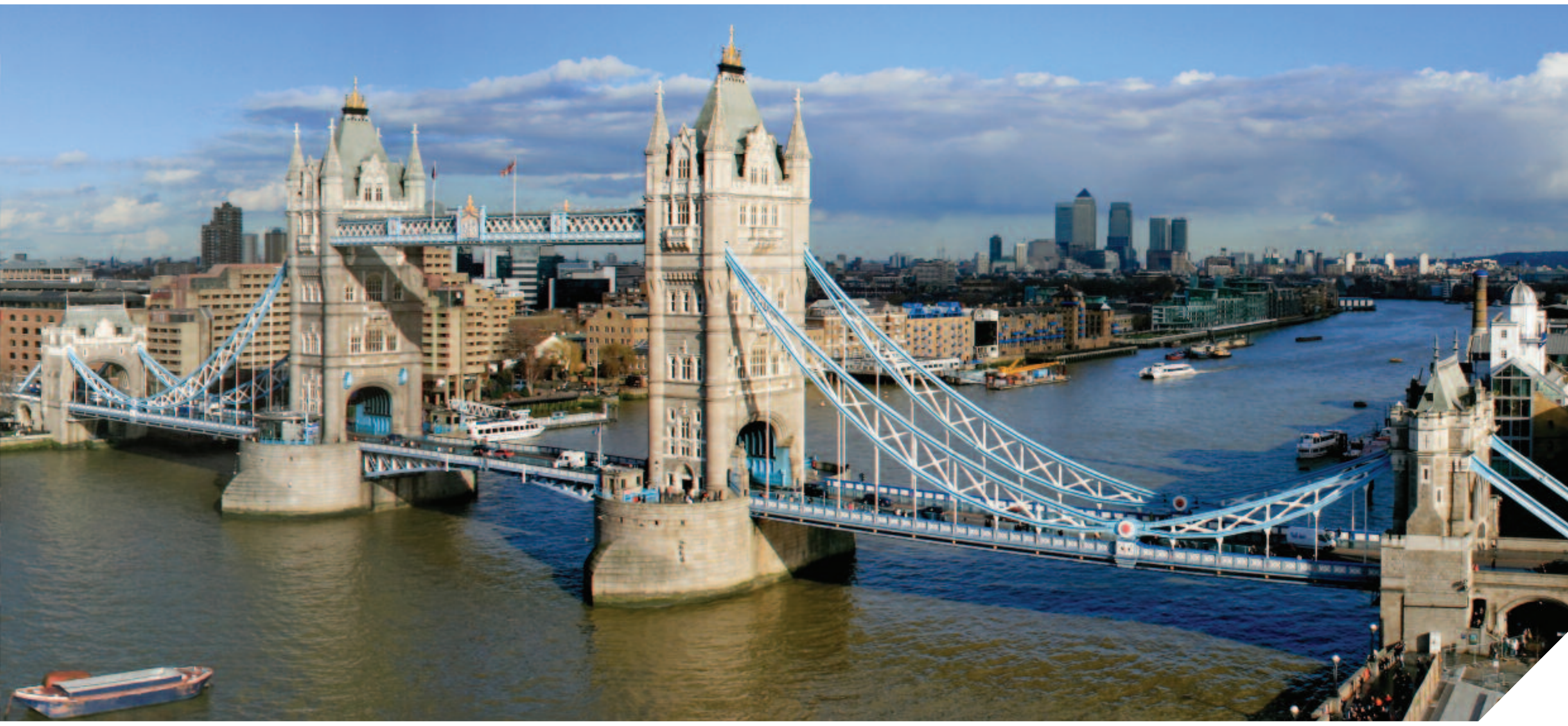

ANNUAL REPORT 2010

Great Lakes Reinsurance (UK) PLC

Munich RE

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DIRECTORY

Directors

A. J. Medniuk (Chairman)
P. Göschl (Chief Executive Officer)
G. Guelfand (Chief Financial Officer)
G. Funke
A. A. Pröbstl
N. H. H. Smith

Secretary

S. G. Pendlebury

Registered Office

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

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

Auditors

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

Bankers

Barclays Bank PLC
The Bank of New York (Europe) Ltd
HSBC Bank PLC
ANZ Banking Group Limited
Aargauische Kantonalbank

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 2010 and the auditor's report thereon.

Principal Activities and Business Review

Principal Activities

The Company is authorised by the Financial Services 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 and Switzerland, and is authorised to write surplus lines business in 47 states in the USA. The Company is registered in England under registration number 2189462.

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 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 best practice insurance solutions provider. The Company aims to achieve this by benchmarking itself against Munich Re, the London Market and regulatory standards.

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.

Alongside other European insurers, the Company is progressing towards compliance with the Solvency II Directive which is due for implementation in January 2013. A programme has been established as part of the wider Munich Re Solvency II project and the Company is confident of meeting all the key dates and deliverables.

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 2010 was 22.5% higher than in 2009. Agency sourced business again provided the dominant share of the Company's gross written premium, at approximately 84% (74% in 2009) and this source provided the bulk of the increase in overall premium. Several agencies that write business under delegated authorities showed significant increases in premiums over 2009. Overall, this increase reflects the growth of the Munich Re group in general and the key role that the Company plays in facilitating the business growth of the group. The key focus remains on profitable underwriting and cycle management. Gross loss and combined ratios highlight ongoing positive underwriting performance, non recurrence of loss events experienced in 2009, together with a large recovery under subrogation relating to a claim paid in 2008, and the reduction of ultimate loss ratios for some prior underwriting years, being key drivers behind this year's result.

The Company retains the business it underwrites through its Corporate Insurance Partner ("CIP London") brand. CIP London offers a highly respected underwriting service to target clients, which are Fortune 5000 companies and other large companies and their captives who demonstrate a commitment to risk management, 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.

KPIs	2010	2009	
Gross Written Premium £m	1,776.0	1,449.7	Gross premium written before outwards reinsurance
Gross Loss Ratio	59.5%	74.6%	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	90.7%	98.0%	Ratio of gross claims incurred, commissions and expenses to gross premium earned
Administrative Expense Ratio	1.6%	1.7%	Ratio of administrative expenses to gross premium earned
Profit Before Tax £m	22.7	67.5	Operating profit from ordinary activities before tax
Shareholder's Funds £m	304.8	292.6	Excess of assets over liabilities supporting business model
Solvency Margin	200.5%	232.0%	Ratio of the adjusted capital to minimum capital requirements

Profit before tax of £22.7m for the year ended 31 December 2010 is lower compared to the 2009 result. The main reasons are significantly lower profit from the reinsurance programme together with lower levels of prior year net claims releases during the period, as described in note 16.

The lower net underwriting result was boosted by an increase in the Company's investment return. The company invests in a conservative portfolio of fixed interest instruments, the value of which increased during the year as a result of a reduction in government bond yields since last year. Also, during the course of the year, the profile of the Company's investment portfolio changed as more investment in government fixed interest securities was made using funds from deposits with credit institutions. The Company's investment portfolio stands at £541.1m as at 31 December 2010 compared to £510.9m in 2009.

The increase in shareholder's funds provided by the profit after tax for the year has been partially offset by a dividend of £7.5m during the course of the financial year (£55.2m in 2009). Shareholder's funds as at 31 December 2010 total £304.8m (2009 £292.6m).

Our solvency margin remains strong and the change this year is principally as a result of the premium growth which has been discussed above. 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.

There is potential for a material gross impact on the 2010 underwriting year from catastrophes that ocurred in 2011 calendar year. To date these include flooding and cyclone Yasi in Australia, the Christchurch earthquake in New Zealand and the Japanese earthquake and tsunami on 11 March 2011. The latest event is likely to exert the greatest gross impact on the outcome of the 2010 underwriting year, however the net exposure after reinsurance is not expected to be significant on the overall Company result.

Management and Employees

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

Risk Management

Risk management is a key part of the Company's corporate management. 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 the operations.

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. 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, the Audit, Risk and Investment Committees.

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 supports business growth, and meets 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 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. The Company has a very 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. The 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

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 interest rate risk. 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 results of this comparison are reported to the Audit and Investment Committees, and monitored by The Board.

Credit Risk Management

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 very low risk in accordance with the Company risk appetite. The Company's investment manager reports on compliance with the mandate in respect of credit risk exposure in the investment portfolio. The results of this compliance are reported to the Audit and Investment Committees, and monitored by The Board.

Liquidity Risk Management

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 very 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.

Risk Monitoring and Control

The Company's Internal Control System ("ICS") identifies, records and assesses all relevant risks and controls and is part of a Munich Re group-wide harmonised control and monitoring system. This provides a uniform system for managing risks across all risk dimensions that both meets Group management needs and satisfies local legal and regulatory requirements. Risk owners at the operational level are charged with keeping the ICS current and relevant. Based on the ICS, a key risk report is produced quarterly and is provided to the Audit 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 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.

Directors & Directors' Interests

The directors of the Company at the date of this report are set out on page 2. Changes in directors during 2010 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
D.S. Höpke		31 December 2010
G. Funke	1 February 2011	

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 Munich Re, a company incorporated in Germany. Copies of the Munich Re group accounts are available from Königinstrasse 107, 80802, Munich, Germany.

Creditors Payment Policy

All suppliers are paid via the Company's service company subsidiary, Great Lakes Services Limited; which had an average payment period of 4 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

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,
30 March 2011

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 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 2010 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As 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, 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 (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 website at www.frc.org.uk/apb/scope/private.cfm.

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 2010 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
15 Canada Square
London E14 5GL

30 March 2011

PROFIT AND LOSS ACCOUNT

Technical Account - General Business for the year ended 31 December 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Gross premiums written	3		1,776,015		1,449,741
Outwards reinsurance premiums					
excluding reinsurance of liabilities acquired in portfolio transfer		1,631,146		1,369,032	
for liabilities acquired in portfolio transfer	4	10,315		-	
Total outward reinsurance premiums			**1,641,461**		**1,369,032**
Net premiums written					
excluding reinsurance of liabilities acquired in portfolio transfer		144,869		80,709	
for liabilities acquired in portfolio transfer		(10,315)		-	
Total net premiums written			**134,554**		**80,709**
Change in the gross provision for unearned premiums	16		(136,484)		(120,039)
Change in the provision for unearned premiums - reinsurers' share	16		(130,277)		(117,809)
Change in the net provision for unearned premiums			(6,207)		(2,230)
Earned premiums, net of reinsurance			**128,347**		**78,479**
Investment return allocated from the non-technical account			15,259		11,210
Other technical income, net of reinsurance			25,027		22,689
TECHNICAL INCOME			**168,633**		**112,378**

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
for the year ended 31 December 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Gross claims paid			782,661		687,239
Reinsurers' share			727,872		673,375
Claims paid - net			**54,789**		**13,864**
Change in the gross provision for claims	16		192,718		304,140
Reinsurers' share					
excluding reinsurance of liabilities acquired in portfolio transfer		152,662		309,154	
reinsurance of liabilities acquired in portfolio transfer	4	9,679		-	
Total reinsurers' share	16		162,341		309,154
net of reinsurance before excluding reinsurance liabilities acquired in portfolio transfer		40,056		(5,014)	
effect of reinsurance of liabilities acquired in portfolio transfer		(9,679)		-	
Change in the provision for claims - net			**30,377**		**(5,014)**
Claims incurred net of reinsurance			85,166		8,850
Net operating expenses	6		62,251		37,519
TECHNICAL EXPENSES			**147,417**		**46,369**
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			**21,216**		**66,009**

PROFIT AND LOSS ACCOUNT

Non-Technical Account
for the year ended 31 December 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			**21,216**		**66,009**
INVESTMENT RETURN					
Investment income	5	10,787		7,214	
Unrealised gains on investments		5,238		4,903	
Investment expenses and charges		(766)		(907)	
Total investment return			15,259		11,210
Investment return allocated to the technical account			(15,259)		(11,210)
			21,216		**66,009**
Exchange gains			1,506		1,517
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	7		**22,722**		**67,526**
Tax on profit on ordinary activities	9		6,349		18,547
PROFIT ON ORDINARY ACTIVITIES AFTER TAX, RETAINED FOR THE FINANCIAL YEAR			**16,373**		**48,979**

All profits for the year and prior year relate to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
PROFIT FOR THE FINANCIAL YEAR		**16,373**	**48,979**
Currency translation gains on foreign currency net investments	15	3,409	1,517
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		**19,782**	**50,496**

In accordance with 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.

BALANCE SHEET

Assets
as at 31 December 2010

	Notes	2010 £'000	2009 £'000
INVESTMENTS			
Financial investments	10	541,150	510,994
Deposit assets		93,663	84,849
		634,813	**595,843**
Investment in subsidiary		50	50
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium	16	800,496	657,343
Claims outstanding	16	1,957,249	1,768,312
		2,757,745	**2,425,655**
DEBTORS			
Arising out of direct insurance operations	11	396,851	346,925
Arising out of reinsurance operations	12	-	4
Deferred tax	9	17	21
Other debtors	21	30,919	13,285
		427,787	**360,235**
OTHER ASSETS			
Cash at bank	13	**40,489**	**42,177**
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		6,393	5,170
Deferred acquisition costs	17	222,753	169,497
		229,146	**174,667**
TOTAL ASSETS		**4,090,030**	**3,598,627**

BALANCE SHEET

Liabilities
as at 31 December 2010

	Notes	2010 £'000	2009 £'000
CAPITAL AND RESERVES			
Called up share capital	14	114,000	114,000
Profit and loss account	15	190,848	178,566
Shareholder's funds	15	**304,848**	**292,566**
TECHNICAL PROVISIONS			
Unearned premium	16	871,592	719,499
Claims outstanding	16	2,210,648	1,980,392
		3,082,240	**2,699,891**
PROVISIONS FOR OTHER RISKS AND CHARGES	18	**536**	**700**
CREDITORS			
Arising out of direct insurance operations	19	353,952	302,193
Arising out of reinsurance operations	20	-	1,339
Deposit liabilities		125,301	108,451
Taxation		1,391	11,945
Other creditors	21	15,281	22,307
		495,925	**446,235**
DEFERRED REINSURANCE COMMISSIONS	17	**206,481**	**159,235**
TOTAL LIABILITIES		**4,090,030**	**3,598,627**

Approved by the board on 30 March 2011.

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

NOTES TO THE ACCOUNTS

1. Basis of preparation of the Financial Statements

The financial statements 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 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 the Company 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 the Company, has therefore not been consolidated in these accounts.

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 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.

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.

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 2010 £'000	Profit/(Loss) before tax 2010 £'000	Net assets 2010 £'000	Gross premiums written 2009 £'000	Profit/(Loss) before tax 2009 £'000	Net assets 2009 £'000
BY GEOGRAPHICAL SEGMENT						
United Kingdom	1,563,741	18,781	280,587	1,342,478	65,873	278,969
Switzerland	9,934	1,726	2,141	9,098	(358)	287
Australia	195,816	2,217	21,861	98,165	2,011	13,310
New Zealand	6,524	(2)	259	-	-	-
	1,776,015	**22,722**	**304,848**	**1,449,741**	**67,526**	**292,566**

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

	2010 £'000	2009 £'000
Resulting from contracts concluded by the Company:		
In the EU member state of its head office	1,563,741	1,342,478
Outside EU member states	212,274	107,263
	1,776,015	**1,449,741**

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

2010	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	265,267	389,281	552,143	550,721	1,757,412	18,603	1,776,015
Gross premiums earned	257,626	357,684	525,080	481,527	1,621,917	17,614	1,639,531
Gross claims incurred	138,169	315,699	190,688	329,469	974,025	1,354	975,379
Gross operating expenses	33,529	102,742	266,455	108,095	510,821	1,606	512,427
Gross technical result	85,928	(60,757)	67,937	43,963	137,071	14,654	151,725
Reinsurance balance	84,821	(64,477)	67,202	43,963	131,509	14,259	145,768
Net technical result	**1,107**	**3,720**	**735**	**-**	**5,562**	**395**	**5,957**
Net technical provisions	**136**	**64,758**	**259,498**	**-**	**324,392**	**103**	**324,495**

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**

4. Portfolio Transfer

On 1 December 2010 the primary insurance portfolio of the Australian branch of Munich Reinsurance America, Inc. was transferred to the Company for consideration of £15,174,316 in accordance with a scheme under Division 3A of Part III of the Insurance Act, 1973 (CTH) approved by the Federal Court of Australia. The assets and liabilities transferred are set out below. Following the transfer the Company reinsured 90% of certain of the liabilities of the transferred portfolio with the Australian branch of Munich Re.

	2010 £'000
PORTFOLIO TRANSFER	
Consideration received	15,174
Technical provisions assumed	(13,540)
	1,634
REINSURANCE OF LIABILITIES ASSUMED	
Reinsurance premium paid	(10,315)
Liabilities ceded	9,679
	(636)
Net gain on portfolio transfer and reinsurance of liabilities	**998**

5. Investment Income

	2010 £'000	2009 £'000
Investment Income	9,365	13,370
Realised gains/(losses)	1,422	(6,156)
	10,787	**7,214**

6. Net Operating Expenses

	2010 £'000	2009 £'000
Acquisition costs	533,384	357,609
Change in gross operating expense provision	(164)	(244)
Change in gross deferred acquisition costs (note 17)	(47,451)	(67,625)
Administrative expenses	26,658	21,949
Gross operating expenses	512,427	311,689
Reinsurance commissions and profit participation	(493,505)	(333,645)
Change in ceded operating expense provision	164	244
Change in deferred reinsurance commission (note 17)	43,165	59,231
	62,251	**37,519**

7. Profit on Ordinary Activities before Tax

Profit on ordinary activities before tax is stated after charging:

	2010 £'000	2009 £'000
AUDITORS' REMUNERATION		
Audit of these financial statements	135	123
Audit of subsidiary's financial statements	17	17
Other services pursuant to legislation	128	111
Other services relating to taxation	86	147
All other services	91	1

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

	2010 £'000	2009 £'000
Directors' emoluments	598	790
Pension contributions	15	37
Compensation for loss of office	-	202
	613	**1,029**

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 £290,592 (2009: £335,133) and pension contributions of £Nil (2009: £Nil).

9. Taxation

	2010 £'000	2009 £'000
UK Corporation tax at 28% (2009: 28%)	6,358	18,553
Change in prior year current tax	(13)	(12)
Total Current Tax	**6,345**	**18,541**
Change in current year deferred tax	4	6
Total Deferred Tax	**4**	**6**
	6,349	**18,547**

The 2010 current tax charge for the year is lower (2009: lower) than the standard rate of corporation tax in the UK at 28% (2009: 28%). The differences are explained below:

Profit before tax	**22,722**	**67,526**
Corporation tax at 28% (2009: 28%)	6,362	18,907
Excess capital allowances over depreciation	(4)	(6)
Tax effect of franked investment income	-	(420)
Tax effect of permanent difference	-	72
Change in prior year current tax	(13)	(12)
	6,345	**18,541**

Deferred Tax Asset

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

Balance at start of year	21	27
Change in deferred tax	(4)	(6)
	17	**21**

A 27% corporation tax rate has been used to value the deferred tax asset as at 31 December 2010 as this is the rate substantially enacted at year end in accordance with UK GAAP. The emergency budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over the period of 4 years from 2011. The first reduction from 28% to 27% will be effective 1 April 2011. This was followed with an announcement in the budget on 23 March 2011 that the first reduction would be from 28% to 26% with effect from 1 April 2011 with subsequent reductions of 1% per year to 23%. This will mean that the deferred tax will reverse at a lower rate than that at which it is currently recognised.

10. Investments

	Current Value		Historical Value	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**
Financial Investments				
Government fixed interest securities	376,344	271,133	366,629	270,471
Other listed fixed interest securities	29,428	15,694	28,914	14,993
Deposits with credit institutions	135,378	224,167	135,378	224,167
	541,150	**510,994**	**530,921**	**509,631**

Government fixed interest securities included gilt'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

	2010 £'000	**2009 £'000**
Amounts owed by intermediaries	381,973	343,147
Amounts owed by group companies	14,878	3,778
Total	**396,851**	**346,925**

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

12. Debtors arising out of Reinsurance operations

	2010 £'000	**2009 £'000**
Amounts owed by intermediaries	-	4

13. Cash at Bank

The cash at bank balance includes accounts totalling £14,375,196 (2009: £8,664,840) which have been set aside to secure letters of credit and guarantees which have been issued in the normal course of business, and in respect of other statutory requirements. As such these balance are restricted from general use.

14. Share Capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid 11,400,000 (2009 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000

15. Reconciliation of movements in Shareholder's Funds

	Ordinary Share Capital £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2010	114,000	178,566	292,566
Profit for the year	-	16,373	16,373
Dividends paid	-	(7,500)	(7,500)
Currency translation differences on foreign currency net investments	-	3,409	3,409
At 31 December 2010	**114,000**	**190,848**	**304,848**

16. Technical Provisions

	Unearned premiums 2010 £'000	Claims outstanding 2010 £'000	Total 2010 £'000	Unearned premiums 2009 £'000	Claims outstanding 2009 £'000	Totals 2009 £'000
GROSS AMOUNT						
At beginning of the year	719,499	1,980,392	2,699,891	644,031	1,849,287	2,493,318
Currency translation differences	15,609	23,998	39,607	(44,571)	(173,035)	(217,606)
Movement in the provision	136,484	192,718	329,202	120,039	304,140	424,179
Liabilities assumed under portfolio transfer	-	13,540	13,540	-	-	-
At end of the year	**871,592**	**2,210,648**	**3,082,240**	**719,499**	**1,980,392**	**2,699,891**
REINSURANCE AMOUNT						
At beginning of the year	(657,343)	(1,768,312)	(2,425,655)	(579,624)	(1,616,743)	(2,196,367)
Currency translation differences	(12,876)	(26,596)	(39,472)	40,090	157,585	197,675
Movement in the provision	(130,277)	(162,341)	(292,618)	(117,809)	(309,154)	(426,963)
At end of the year	**(800,496)**	**(1,957,249)**	**(2,757,745)**	**(657,343)**	**(1,768,312)**	**(2,425,655)**
NET TECHNICAL PROVISIONS						
At beginning of the year	**62,156**	**212,080**	**274,236**	**64,407**	**232,544**	**296,951**
At end of the year	**71,096**	**253,399**	**324,495**	**62,156**	**212,080**	**274,236**

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 2010 of £25.4m (2009: £79.9m overprovision).

The overprovision was in respect of direct property of £8.9m (2009: £29.9m) and direct general liability and other of £16.5m (2009: £57.0m).

17. Deferred Acquisition Costs

	2010 £'000	2009 £'000
GROSS AMOUNT		
At beginning of the year	169,497	109,954
Currency translation differences	5,805	(8,082)
Movement in the provision	47,451	67,625
At end of the year	**222,753**	**169,497**
REINSURANCE AMOUNT		
At beginning of the year	(159,235)	(107,601)
Currency translation differences	(4,081)	7,598
Movement in the provision	(43,165)	(59,232)
At end of the year	**(206,481)**	**(159,235)**
NET DEFERRED ACQUISITION COSTS		
At beginning of the year	**10,262**	**2,353**
At end of the year	**16,271**	**10,262**

18. Provisions for other risks and charges

	Expense provision 2010 £'000	Expense provision 2009 £'000
At beginning of the year	700	938
Movement in the year	(164)	(238)
At end of the year	**536**	**700**

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

There were no additional provisions made during 2010 or 2009.

19. Creditors arising out of Direct Insurance Operations

	2010 £'000	2009 £'000
Amounts owed to intermediaries	50,547	38,500
Amounts owed to group companies	303,405	263,693
	353,952	**302,193**

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

20. Creditors arising out of Reinsurance Operations

	2010 £'000	2009 £'000
Amounts owed to intermediaries	-	1,339
	-	**1,339**

21. Group Companies

a) 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.

b) Subsidiary Company
The 'Investment in subsidiary' is a 100% shareholding in Great Lakes Services Limited, an unlisted service company incorporated in the United Kingdom. At 31 December 2010 the net asset value of the investment was £1,422,000 (2009: £583,000).

c) Other Debtors and Creditors
Other Debtors include only balances owed by third parties. Other Creditors includes £3,833,000 (2009: £12,630,000) owed to group companies.

22. Leases

	Land and Buildings	
	2010 £'000	**2009 £'000**
Annual commitments under non-cancellable operating leases are as follows:		
Operating leases which expire in over five years	170	170
Operating lease payments made during the financial year	170	170

23. Contingent Liabilities and Guarantees

During 2009 the Company entered into an agreement to guarantee payments to be made by Great Lakes Services Limited in respect of a pension scheme of which certain Great Lakes Services Limited employees are members. Payments of £147,000 are to be made annually over the next 8 years by Great Lakes Services Limited.

Risk Solutions

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