

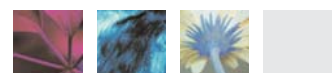




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31 DECEMBER 2006

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DIRECTORY

31 DECEMBER 2006

DIRECTORS

M.C.F. Hannan (Chairman)
N.J.Parr (Chief Executive Officer)
R.A.S.Harris FCA (Chief Financial Officer)
W.J. Branum
C.Schurig
N.H.H. Smith
J.J. Ludbrook

SECRETARY

M.A. Odell

REGISTERED OFFICE

Upper Ground Floor
1 Minster Court
Mincing Lane
London EC3R 7YH
Telephone: 020-7929 2893
Facsimile: 020-7623 5220
E-mail: correspondence@greatlakes.co.uk

AUDITORS

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

BANKERS

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

REGISTERED NUMBER

2189462





BUSINESS REVIEW

31 DECEMBER 2006

INTRODUCTION

This business review is intended to give an overview of the operation and performance of the business of Great Lakes UK ("the Company"), but is not intended to meet the requirements of an Operating and Financial review, which is not required of the Company. More information about the Company, its people and its service offerings are outlined in our website at www.greatlakes.co.uk.

The Company is an FSA regulated insurer and acts as an insurance vehicle for the Munich Re Group ("MR"), developing opportunities for MR and managing business using its wide range of insurance licenses. These include US licenses and passport opportunities in the EU, which allow the company to access business in these territories.

The Company enjoys the MR Group rating, currently AA- with stable outlook from Standard & Poors, which aligns its' standards of operation with the levels of professionalism expected from a Group of world renown.

NATURE OF THE BUSINESS

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

Large Single Risk Business

The Company underwrites single (normally very large) risks of corporate clients in the London Market and acquires most business of this type through London brokers. Gross written premium income in 2006 amounted to £177m.

The Company retains the business it underwrites through its Munich-American RiskPartners ("MARP") London brand (£64m). MARP offers a highly respected underwriting service to target clients, which are Fortune 5000 companies and other large corporates and their captives who demonstrate a commitment to risk management, risk retention, loss prevention and loss control. Standard and bespoke solutions in the classes of Property, Casualty and Speciality Lines including Professional Indemnity, Directors and Officers' Liability, Public Offering of Securities Insurance, Employment Practices Liability and Fiduciary Liability are developed through close co-operation with the clients.

MARP also has a focus of activity on developing new product lines and in 2006 launched a service to offer Intellectual Property Rights cover.

Agency Arrangements

The dominant component of our book in terms of premium volume is business accepted under either a tailored form of Agency Agreement or Co-insurance arrangement, for which Gross Written Premium Income in 2006 amounted to £827m .

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

The Company added to its network of highly respected agency distribution channels during 2006 by providing the capacity for a prestigious UK healthcare provider (2006 GWPI £100m) under an agreement until 2013 which included a successful Part VII transfer under FSMA of existing business. The financial effect of the Part VII transfer is shown within the technical account on pages 9 and 10. We also successfully renewed our principal agreement with a major UK Motor provider, thereby continuing to deploy the Company security for this important account for a further 8 years.





HIGH LEVEL STRATEGIC OBJECTIVES

The Company's principal mission is to add value for the MR Group by being a best practice insurance solutions provider.

Financial Performance

Financial performance is measured against Munich Re's Value Based Management ("VBM") concept, where financial results are compared with a risk based capital approach, thereby underpinning the financial incentive to manage and proactively reduce risks. There is no incentive therefore to underwrite for business volume, with attention being focused on achieving positive value added results.

For 2006 the VBM result for MARP exceeded the target and showed significantly positive value added. This means that rating business to technical levels, which is regularly monitored through the actuarial function is a successful strategy in achieving the desired results.

Best Practice

In order to achieve our goal of best practice, we benchmark ourselves against MR, the London Market and FSA regulatory standards.

The Company also works closely with a Group Consultation Service Centre for developing the operating standards 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 we have therefore enhanced our risk and compliance arrangements during 2006 accordingly.

RISK MANAGEMENT

In 2006, the Company developed an improved operational risk monitoring and evaluation process using an IT system which was developed in house for the purpose of the identification and management of risk inherent in, or emerging from, the different operating departments. This is supported by a regular internal audit programme, reporting to the Audit Committee, which tests the efficiency of internal processes and procedures.

The main risks that the Company is faced with are :

- Controlling the delegation of Underwriting Authority to Agents
- Managing the Insurance Risk of potential large losses arising from underwriting large single risks

Delegation of Underwriting Authority to Agents

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

A holistic, tiered Management Information ("MI") concept has been enhanced during 2006, which will lead in turn to the progressive delivery during 2007 of automated MI, through a major project investing substantially in a revised IT landscape which includes the construction of a bespoke data warehouse. This will consolidate existing MI and improve risk specific data available for directing the business.

Insurance Risk arising from Large Single Risks

The insurance risk is managed via the Individual Capital Assessment ("ICA") process and is limited by diversifying the book wherever possible and by reinsurance covers that are placed with MR. The Company is always keen to explore innovative forms of cover that increase diversification and thereby help to balance exposures in the book.

The ICA model itself is being further refined on an on-going basis and is a process that is embedding the perception, recognition and evaluation of risk into the daily business operations.





PERFORMANCE AND MEASUREMENT

The Company is committed to empowering our staff to take decisions that can be made speedily and at the right level. To support this we began a process in 2006 to assess the skill sets within our teams and to develop a range of practical personal development plans.

During 2007 we will restructure our operations, which will have the effect of strengthening the position of the MARP London division and amalgamating the Finance and Actuarial functions.

Strategy is formulated and controlled via the Balanced Scorecard process. All initiatives that were developed for action in 2006 have been progressed in accordance with the plan with the necessary challenge provided by a quarterly Board review process. Senior management refine and develop new initiatives at the beginning of each year and all staff are familiar with the communication of these to them via the Balanced Scorecard and individual performance objectives aligned thereto.

Apart from qualitative indicators which are monitored, the Board will customarily judge the performance of the business with the help of the following key performance indicators, which are stated excluding the effect of the Part VII transfer.

Gross Account:

- Gross Loss Ratio : 46.8% (Very Satisfactory) - important to judge the profitability of the overall book of business. The Board looks at more detailed information to satisfy itself that the development by Line of business and by Underwriting Year is satisfactory.
- Growth Rate of Gross Premium Written : 1.2% (Stable) - business development indicator that shows how fast the business is growing.
- Gross Expense Ratio : 1.4% (Very Satisfactory) - measure of the cost efficiency of the business
- Solvency Margin : 243% (Very Satisfactory) - monitored constantly to ensure solvency of the business and efficient use of capital.

MARP London business

The following ratios indicate that the performance of the division has exceeded expectations and that a favourable result for the business has been achieved.

- Loss Ratio, Net of Reinsurance: 75.0% - judging the profitability of the underlying business of MARP London account (with further analysis by Line of business and Underwriting Year).
- Combined Ratio, Net of Reinsurance: 87.8% - judging the profitability of the whole MARP London account (with further analysis by Line of business and Underwriting Year).
- Retention Rate: 89.2% - business development indicator that shows the share of the MARP London retained after reinsurance protections.





REPORT OF THE DIRECTORS

31 DECEMBER 2006

PRINCIPAL ACTIVITY

The principal activity of the Company is the transaction of insurance business. The Company has been awarded the following Group Ratings

A+ Superior (A M Best)
AA- Strong (Standard & Poors)

DIRECTORS & SECRETARY

The Directors of the Company are as stated on page 2; there have been no changes to the Board during the year.

N. J. Parr holds one Ordinary Share of £10 (2005 - 1) as trustee. None of the directors had a beneficial interest in the shares of the Company. Under the provisions of the Companies (Disclosures of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate holding company.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on pages 9 to 11. A dividend of £20m was paid during the year.

DEVELOPMENT OF THE COMPANY

During the year the Company has continued to underwrite insurance business, and has maintained a prudent approach to the spread of risk both by class of business and by location.

CREDITORS PAYMENT POLICY

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

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

All suppliers are now paid via the Company's service company subsidiary, Great Lakes Services Limited; application of the above policy by that company has led to an average creditors payment period of 20 days.

DIRECTORS' RESPONSIBILITIES

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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.





DIRECTORS' RESPONSIBILITIES (cont.)

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

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

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

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

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

MAJOR SHAREHOLDINGS

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

CORPORATE GOVERNANCE

The Company is committed to business integrity, high ethical values and professionalism in all of its activities. As an essential part of this commitment, the Board supports high standards in Corporate Governance.

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 audit information of which the Company's auditors are unaware; and that each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

AUDITORS

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

By order of the Board

M.A. Odell
Company Secretary
30 March 2007





INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF GREAT LAKES REINSURANCE (UK) PLC

We have audited the financial statements of Great Lakes Reinsurance (UK) PLC for the year ended 31st December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on pages 6 and 7.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended.
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
30 March 2007





PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS

31 DECEMBER 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
EARNED PREMIUMS, NET OF REINSURANCE					
Gross premiums written					
Continuing activities			1,068,706		1,063,647
Discontinued activities			1,412		(5,809)
	15		1,070,118		1,057,838
Outwards reinsurance premiums					
before Part VII transfer		1,011,345		878,606	
Effect of Part VII transfer		40,908		-	
Outward reinsurance premiums			1,052,253		878,606
Net premiums written					
before Part VII transfer		58,773		179,232	
Effect of Part VII transfer		(40,908)		-	
Net premiums written			17,865		179,232
Increase in the gross provision for unearned premiums					
(Increase)/Decrease in the provision for unearned premiums - reinsurers' share			(49,302)		(16,802)
			(52,596)		21,189
(Increase)/Decrease in the net provision for unearned premiums					
			3,294		(37,991)
Earned premiums, net of reinsurance	3		21,159		141,241
Investment income			3,534		7,639
Other technical income, net of reinsurance			16,839		13,997
TOTAL TECHNICAL INCOME			41,532		162,877





PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS

31 DECEMBER 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
CLAIMS INCURRED, NET OF REINSURANCE					
Claims paid					
- gross amount			509,686		458,857
- reinsurers' share before Part VII transfer		497,276		440,375	
- effect of Part VII transfer		40,908		-	
- reinsurers' share			538,184		440,375
- net of reinsurance before Part VII transfer		12,410		18,482	
- effect of Part VII transfer		(40,908)		-	
- net of reinsurance			(28,498)		18,482
Change in the provision for claims					
- gross amount			(8,966)		458,044
- reinsurers' share			(35,173)		365,808
- net of reinsurance			26,207		92,236
Claims incurred net of reinsurance	4		(2,291)		110,718
Net operating expenses	6		15,059		15,913
TOTAL CHARGES			12,768		126,631
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS					
Continuing activities			21,045		33,246
Discontinued Activities			7,719		3,000
			28,764		36,246





PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		28,764	36,246
Investment income	9	6,190	17,569
		<u>34,954</u>	<u>53,815</u>
Investment expenses and charges			
- investment management expenses		(1,238)	(1,318)
Investment income allocated to the technical account		(3,534)	(7,639)
		<u>(4,772)</u>	<u>(8,957)</u>
OTHER CHARGES			
Exchange losses		(1,910)	(185)
		<u></u>	<u></u>
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		28,272	44,673
Tax on profit on ordinary activities	10	(19,549)	14,701
		<u></u>	<u></u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX, RETAINED FOR THE FINANCIAL YEAR		47,821	29,972
		<u></u>	<u></u>

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





BALANCE SHEET

ASSETS

31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
INVESTMENTS			
Financial investments	11	369,938	273,060
Deposits with ceding undertakings		149	272
		<u>370,087</u>	<u>273,332</u>
Investment in Subsidiary		<u>50</u>	<u>50</u>
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium provision	3	472,866	420,270
Claims outstanding	4	1,286,948	1,322,121
		<u>1,759,814</u>	<u>1,742,391</u>
DEBTORS			
Arising out of direct insurance operations	19	106,954	333,743
Arising out of reinsurance operations		22	1,314
Corporation tax recoverable		5,609	-
Deferred tax	10	15,154	-
Other debtors		326	934
		<u>128,065</u>	<u>335,991</u>
OTHER ASSETS			
Cash at bank and in hand		<u>47,147</u>	<u>44,350</u>
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		3,427	3,089
Deferred acquisition costs	6	73,472	66,432
		<u>76,899</u>	<u>69,521</u>
TOTAL ASSETS		<u><u>2,382,062</u></u>	<u><u>2,465,635</u></u>





BALANCE SHEET

LIABILITIES

31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
CAPITAL AND RESERVES			
Called up share capital	12	114,000	114,000
Profit and loss account	14	130,433	102,612
		<hr/>	<hr/>
Shareholders' funds attributable to equity interests		244,433	216,612
		<hr/>	<hr/>
TECHNICAL PROVISIONS - GROSS			
Unearned premium provision	3	516,050	466,748
Claims outstanding	4	1,451,437	1,460,403
		<hr/>	<hr/>
		1,967,487	1,927,151
		<hr/>	<hr/>
PROVISIONS FOR OTHER RISKS AND CHARGES			
Taxation		-	13,401
		<hr/>	<hr/>
CREDITORS			
Arising out of direct insurance operations	19	88,144	195,165
Arising out of reinsurance operations		32	689
Other creditors including taxation and social security	13	10,077	47,582
		<hr/>	<hr/>
		98,253	243,436
		<hr/>	<hr/>
ACCRUALS AND DEFERRED INCOME			
Deferred reinsurance commissions	6	71,889	65,035
		<hr/>	<hr/>
		2,382,062	2,465,635
		<hr/> <hr/>	<hr/> <hr/>

Approved by the board on 30 March 2007

N. J. Parr - Chief Executive Officer R. A. S. Harris - Chief Financial Officer





NOTES TO THE ACCOUNTS

31 DECEMBER 2006

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

As the company is a wholly owned subsidiary of Münchener Rückversicherungs Gesellschaft AG ('Munich Re') the company has taken advantage of the exemption contained in FRS 8 and not disclosed transactions with entities which form part of the Munich Re group. The consolidated financial statements of Munich Re, within which the Company is included, can be obtained from the Company's registered office. As the company is a wholly owned subsidiary undertaking it is exempted from producing consolidated financial statements and so these financial statements present information for the Company as an individual undertaking. Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company is included in the consolidated financial statements of Munich Re.

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with material items in the company's financial statements.

Basis of accounting

- The annual basis of accounting has been applied to all classes of business.

Premiums

- Written premiums comprise the amount receivable including an estimate of pipeline premiums during the financial year for the whole period for 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.
- Reinsurance premiums payable are recognised in the same period as the written premiums for the original risks and are accounted on the same basis.
- Premiums exclude any associated insurance premium taxes and are shown before deduction of amounts payable to intermediaries.
- An adjustment is made to both premiums receivable and reinsurance premiums payable to reflect the time during which the Company is on risk in respect of the underlying cover. Depending on the profile of the underlying business, this calculation is made using an approach no less accurate than the 24ths basis.

Claims

- Claims paid include both claims and associated claims settlement expenses paid during the year.
- The provision for outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, together with related internal and external claims handling expenses. Where applicable, prudent estimates are made of expected





reinsurance recoveries and salvage and subrogation recoveries, which are shown separately in the balance sheet as assets.

- In estimating the amount to carry forward for IBNR, the Company adopts a statistical approach to quantifying the amount. In particular the Company estimates, based on exposure analysis or past experience for each class of business, the expected development of claims over time in order to determine the likely ultimate claims to be experienced, In addition, the Company makes allowance for differences between years in respect of the type of business written, as well as the underlying terms and conditions of that business. Inherent in these approaches is the assumption that the past is a reasonable predictor of the likely level of claims development and that the models used for current business are appropriate.
- In estimating the IBNR for both large claims and catastrophes, the Company considers the likely exposure arising from the individual loss or, in the case of catastrophes, the underlying event.
- Although the provision for IBNR is fairly stated based on information available and assumptions extant at the balance sheet date, it is inevitable that the ultimate liability will vary as a result of subsequent information and events (including legal decisions) which may result in significant adjustments to the amounts provided; these adjustments will be reflected in future sets of financial statements.

Part VII transfer

- The Part VII transfer has been accounted in accordance with the ABI SORP; any associated reinsurance transaction has been reflected in the Technical Account.

Unexpired risks

- Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums provision in respect of such policies after deduction of any acquisition costs deferred. The provision for unexpired risks is calculated after taking into account relevant investment income. Surpluses and deficits are aggregated where classes of business are managed together.

Acquisition costs

- Acquisition costs comprise the expenses, both direct and indirect, of acquiring policies written during the financial year.
- Costs which vary with and are primarily related to the acquisition of business (including both new and renewal business) are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Other technical income

- Overriding commission receivable is reflected in the technical account on the same basis as the underlying business to which it relates.

Investments and investment income

- Quoted investments are stated at current value (which is represented by the bid value) at the balance sheet date.





- The subsidiary company is valued at cost.
- The directors believe that the net asset value of the subsidiary company is an appropriate indication of its current value.
- Investment income comprises interest and dividends receivable, together with both realised and unrealised investment gains. Realised gains are calculated as the difference between net sales proceeds and original cost or, if previously revalued, the valuation at the balance sheet date.
- Investment income on the assets supporting technical provisions, consisting of fixed interest investments, is allocated to the technical account on the average value of those provisions held during the year.

Deferred taxation

- Deferred taxation is recognised, without discounting, in respect of all timing differences between the accounting and tax value which have arisen at the balance sheet date, except as otherwise required by FRS 19.

Foreign currencies

- Assets and liabilities denominated in currencies other than sterling are translated to sterling at the rate of exchange ruling at the balance sheet date.
- Revenue transactions in other currencies are converted to sterling at the rate ruling at the time of the transaction.

Operating leases

- Rental costs relating to operating leases are included within management expenses over the term of lease on a straight line basis.





3. EARNED PREMIUMS, NET OF REINSURANCE

	Gross £'000	2006 Reinsurance £'000	Net £'000	Gross £'000	2005 Reinsurance £'000	Net £'000
Premiums receivable	1,070,118	1,052,253	17,865	1,057,838	878,606	179,232
Unearned premiums - 1 January	466,748	420,270	46,478	449,946	441,459	8,487
Unearned premiums - 31 December	516,050	472,866	43,184	466,748	420,270	46,478
	-----	-----	-----	-----	-----	-----
Effect of exchange rate differences (Increase)/decrease in unearned premiums	(16,543)	(14,914)	(1,629)	-	-	-
	(32,759)	(37,682)	4,923	(16,802)	21,189	(37,991)
	-----	-----	-----	-----	-----	-----
Premiums earned	1,020,816	999,657	21,159	1,041,036	899,795	141,241
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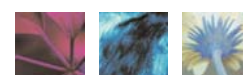
The Part VII transfer is more fully explained in note 5.

4. CLAIMS INCURRED, NET OF REINSURANCE

	Gross £'000	2006 Reinsurance £'000	Net £'000	Gross £'000	2005 Reinsurance £'000	Net £'000
Claims paid	509,686	538,184	(28,498)	458,857	440,375	18,482
Outstanding Claims - 1 January	1,460,403	1,322,121	138,282	1,002,359	956,313	46,046
Outstanding claims - 31 December	1,451,437	1,286,948	164,489	1,460,403	1,322,121	138,282
	-----	-----	-----	-----	-----	-----
Effect of exchange rate differences Increase/(decrease) in Outstanding Claims	(46,950)	(20,946)	(26,004)	-	-	-
	37,984	(14,227)	52,211	458,044	365,808	92,236
	-----	-----	-----	-----	-----	-----
Claims incurred	500,720	503,011	(2,291)	916,901	806,183	110,718
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The Part VII transfer is more fully explained in note 5.

Overprovisions for net claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims amounted to £19.7 million (2005 - £3 million overprovision).





5. PART VII TRANSFER

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

	£'000
Assets	
Investments	40,301
Deferred acquisition costs	10,151
Debtors	59,345
	<u>109,797</u>
Liabilities	
Technical provisions	40,908
Unearned premium reserve	46,590
Creditors	22,299
	<u>109,797</u>

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

6. OPERATING EXPENSES

	2006 £'000	2005 £'000
Acquisition costs		
- gross amount	229,149	147,826
- reinsurers' share	226,378	141,771
	<u>2,771</u>	<u>6,055</u>
- net of reinsurance		
Net deferred acquisition costs - 1 January	1,397	1,840
Net deferred acquisition costs - 31 December	1,583	1,397
	<u>(186)</u>	<u>443</u>
(Increase)/Decrease		
Acquisition costs	2,585	6,498
Administration expenses	12,474	9,415
	<u>15,059</u>	<u>15,913</u>
Direct insurance commissions amounted to	<u>221,571</u>	<u>142,078</u>





7. ADMINISTRATIVE EXPENSES

All administration expenses, including auditors' remuneration amounting to £162,000 (2005 - £148,000) for audit services and £288,315 (2005 - £130,000) for non audit services, are paid by the Company's wholly owned subsidiary, Great Lakes Services Limited. These expenses are recharged to Great Lakes Reinsurance (UK) PLC, with disclosures being made in the accounts of the service company.

The fees paid in respect of non audit services can be broken down as follows:

• Services relating to taxation	87,645
• Services relating to IT	2,388
• All other services	198,282
	<hr/>
	288,315

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

	2006 £'000	2005 £'000
Directors' emoluments	100	446
Pension contributions	-	55
	<hr/>	<hr/>
	100	501

Directors' remuneration consists of the emoluments on behalf of two (2005 - four) directors.

In respect of the highest paid director:	2006 £'000	2005 £'000
Directors' emoluments	60	192
Pension contributions	-	31
	<hr/>	<hr/>
	60	223

9. INVESTMENT INCOME

	2006 £'000	2005 £'000
Investment income	18,519	16,325
Realised gains	425	148
Unrealised (losses)/gains	(5,198)	1,096
Foreign exchange losses	(7,556)	-
	<hr/>	<hr/>
Total	6,190	17,569





10. TAXATION

	2006 £'000	2005 £'000
UK Corporation tax at 30% (2005: 30%)	-	13,401
Deferred Tax	(15,154)	1,300
Overprovision in prior year	(4,395)	-
	<u>(19,549)</u>	<u>14,701</u>

Reconciliation of the standard tax rate to the effective tax rate:

Profit before tax	28,272	44,673
Corporation tax at 30%	8,482	13,401
Unutilised loss relief in previous year now recognised and utilised	(28,031)	1,300
	<u>(19,549)</u>	<u>14,701</u>

Deferred Tax Asset

Under FRS 19, deferred tax is provided for in full on unrelieved trading losses carried forward.

	2006 £'000	2005 £'000
Balance at start of the year	-	1,300
Deferred tax charge in Profit and Loss Account	15,154	(1,300)
Balance at end of year	<u>15,154</u>	<u>-</u>





11. INVESTMENTS

	Current value		Historical value	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Financial investments:				
Equities - Listed	21,256	11,327	19,119	10,299
Government fixed interest	160,548	168,566	163,234	168,989
Other listed fixed interest securities	72,202	68,322	74,166	66,241
Deposits with credit institutions	115,932	24,801	115,932	24,801
Staff mortgages	-	44	-	44
	<u>369,938</u>	<u>273,060</u>	<u>372,451</u>	<u>270,374</u>
Deposits with ceding undertakings	149	272	149	272
Total investments	<u>370,087</u>	<u>273,332</u>	<u>372,600</u>	<u>270,646</u>
Investment in subsidiary	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

All listed equities and fixed interest securities are quoted on the London Stock Exchange. The investment in subsidiary represents 100% shareholding in Great Lakes Services Limited, a company incorporated in England and Wales. The Company owns 50,000 shares of £1 each.

12. SHARE CAPITAL

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

13. CREDITORS

All creditors are payable within a period of one year.

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Ordinary Share Capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2006	114,000	102,612	216,612
Profit for year	-	47,821	47,821
Dividends paid	-	(20,000)	(20,000)
At 31 December 2006	<u>114,000</u>	<u>130,433</u>	<u>244,433</u>

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



15. SEGMENTAL INFORMATION

	Direct marine & aviation £'000	Direct property £'000	Direct general liability £'000	Direct motor £'000	Total direct £'000	Re- insurance accepted £'000	Total £'000
2006							
Gross premiums written	258,372	206,774	226,185	377,375	1,068,706	1,412	1,070,118
Gross premiums earned	287,939	145,392	219,654	366,419	1,019,404	1,412	1,020,816
Gross claims incurred	109,327	2,873	204,465	194,688	511,353	(10,633)	500,720
Gross operating expenses	30,033	47,523	56,022	100,424	234,002	580	234,582
Gross technical result	148,579	94,996	(40,833)	71,307	274,049	11,465	285,514
Reinsurance balance	(147,592)	(84,112)	45,140	(69,974)	(256,538)	(3,746)	(260,284)
Net technical result	987	10,884	4,307	1,333	17,511	7,719	25,230
Net technical provisions	-	34,137	155,478	-	189,615	18,057	207,672
2005							
Gross premiums written	230,151	232,842	255,331	345,323	1,063,647	(5,809)	1,057,838
Gross premiums earned	224,679	227,306	249,260	337,113	1,038,358	2,678	1,041,036
Gross claims incurred	119,927	297,224	231,982	270,693	919,826	(2,925)	916,901
Gross operating expenses	24,119	39,395	13,404	76,277	153,195	4,489	157,684
Gross technical result	80,633	(109,313)	3,874	(9,857)	(34,663)	1,114	(33,549)
Reinsurance balance	(80,633)	115,750	3,185	9,857	48,159	-	48,159
Net technical result	-	6,437	7,059	-	13,496	1,114	14,610
Net technical provisions	-	34,237	116,513	-	150,750	34,010	184,760

All premiums resulted from contracts of insurance or reinsurance concluded in the United Kingdom.

The column headed "Reinsurance Accepted" represents discontinued activities, all other activities are continuing.





16. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2006 other than those arising in the normal course of the Company's underwriting business (2005 - Nil).

17. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2006 (2005 - Nil).

18. LEASES

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

	Land and Buildings	
	2006 £'000	2005 £'000
Operating leases which expire		
• Within one year	-	-
• Between two and five years	-	-
• Over five years	618	345
Operating lease payments made during the financial year	578	345





19. GROUP COMPANIES

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

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

	2006 £'000	2005 £'000
Amounts due to holding company	64,229	167,524
Amounts due to fellow subsidiaries	1,627	10,961

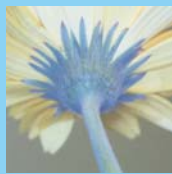
c) Included in debtors arising out of direct insurance operations are the following:

	2006 £'000	2005 £'000
Amounts due from holding company	-	146,973
Amounts due from fellow subsidiaries	128	13,515

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

	2006 £'000	2005 £'000
Other debtors		
Amounts due from holding company	-	607
Amounts due from subsidiary company	221	-
Other creditors		
Amounts due to subsidiary company	-	113





1 Minster Court Mincing Lane London EC3R 7YH
Tel: +44 (0)20 7929 2893 Fax: +44 (0)20 7626 0371