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Great Lakes Reinsurance (UK) PLC (Overseas company registered in New Zealand under the Companies Act 1993)

Annual Financial Report 31 December 2010



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Principal place of business
ANZ Centre, Level 30, 23-29 Albert Street, Auckland

(Overseas company registered in New Zealand under the Companies Act 1993) Statement of Comprehensive Income for the year ended 31 December 2010

	Note	2010 \$	2009 \$
Revenue from operating activities	4	50,950,972	7,420,180
Expenses from operating activities	5	50,835,297	7,225,403
Profit before income tax	-	115,675	194,777
Income tax expense	6	241	· -
Total comprehensive income for the year	_	115 434	194,777

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 4 to 19.

Great Lakes Reinsurance (UK) PLC (Overseas company registered in New Zealand under the Companies Act 1993) Statement of Financial Position as at 31 December 2010

	Note	2010 \$	2009 \$
Current assets	 		
Cash	9	1,602,010	2,060,600
Outstanding premium	· ·	2,713,096	1,656,758
Deferred acquisition costs		4,875,715	4,194,678
Recoverable from reinsurers		6,576,275	3,063,010
Sundry debtors		3,075,519	643,328
Prepaid reinsurance		7,538,808	5,890,148
Current tax		36,302	-
Profit commission recoverable		238,732	140,153
Total current assets	-	26,656,457	17,648,675
Non-current assets			
Financial assets	10	511,045	515,145
Recoverable from reinsurers		137,812	439,469
Deferred tax asset	11	9,818	-
Total non-current assets	-	658,675	954,614
Total assets	- -	27,315,132	18,603,289
Current liabilities			
Payables	12	4,945,437	2,071,311
Outstanding claims	13	6,656,982	3,063,010
Unearned premiums	14	7,538,808	5,890,148
Reinsurance deferred acquisition costs		4,875,715	4,194,678
Reinsurance profit commission payable		238,732	140,153
Total current liabilities	-	24,255,674	15,359,300
Non-current liabilities			
Outstanding claims	13	139,504	439,469
Total non-current liabilities		139,504	439,469
Total liabilities		24,395,178	15,798,769
Net assets		2,919,954	2,804,520
Head Office account			
Accumulated surplus - Head Office	·	2,919,954	2,804,520
Total Head Office account	·	2,919,954	2,804,520

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 4 to 19.

Great Lakes Reinsurance (UK) PLC (Overseas company registered in New Zealand under the Companies Act 1993) Statement of Changes in Equity for the year ended 31 December 2010

	Total \$
Balance at 1 January 2009	202,685
Total comprehensive income	194,777
Changes in equity	
Movement in Home Office account	2,407,058
Balance at 31 December 2009	2,804,520
Total comprehensive income	115,434
Balance at 31 December 2010	2,919,954

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 4 to 19.

(Overseas company registered in New Zealand under the Companies Act 1993) Notes to the financial statements for the year ended 31 December 2010

1. Summary of significant accounting policies

Great Lakes Reinsurance (UK) PLC (the "Company") is registered to carry on business in New Zealand as an overseas company. The Company's principal activity is general insurance.

The financial report was authorised for issue by the directors on _______2011.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-orientated entities that qualify for and apply differential reporting concessions. The Company is a profit-orientated entity. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The Company qualifies for differential reporting exemptions as it has no public accountability, and is small as defined by the Framework for Differential Reporting. All available exemptions allowed under the Framework for Differential Reporting have been adopted.

(b) Basis of preparation

The financial statements are presented in New Zealand Dollars.

The financial statements are prepared in accordance with the fair value basis accounting unless otherwise stated below.

The accounting policies set out below have been applied consistently by the Company to all periods presented in the financial statements.

(c) Premium revenue

Premiums have been brought to account as income from the date of attachment of risk. The earned portion of premiums received and receivable including unclosed business is recognised as revenue. Unearned premiums are calculated by apportioning the premium income written in the year over the period of risk from the date of attachment based on the pattern of risk. Where time does not approximate the pattern of risk previous claims experience has been used to derive the incidence of risk.

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test and immediately recognises any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The entire deficiency, if any, gross and net of reinsurance, is recognises immediately in the statement of comprehensive income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the Statement of financial position as unexpired risk liability.

(e) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

(f) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of all insurance business. The liability covers claims incurred but not yet paid, incurred but not reported ("IBNR"), incurred but not enough reported ("IBNER") and the anticipated direct costs of settling those claims.

(Overseas company registered in New Zealand under the Companies Act 1993) Notes to the financial statements for the year ended 31 December 2010

1. Summary of significant accounting policies (continued)

(f) Claims (continued)

Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNRs, IBNERs and settlement costs using statistics based on past experience and trends. The outstanding claims reserve is estimated using internal management models.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a discount rate.

A risk margin is added to the outstanding claims provision to increase the probability that the liability is adequate at an adequacy level deemed appropriate by the management and set at a minimum confidence level of 75%.

(g) Acquisition costs

A portion of direct acquisition costs relating to unearned premium revenue is recognised as an asset in recognition that it represents a future benefit to the Company and can be reliably measured. Deferred acquisition costs are stated at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(h) Foreign currency translation

The financial statements are presented in New Zealand dollars, which is the Company's presentation and main functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive Income.

Assets and liabilities expressed in other currencies are translated to the functional currency using the closing rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Realised and unrealised foreign exchange gains and losses resulting from this translation are recognised in the statement of comprehensive income.

(i) Income tax

The Company portfolio prior to July 2010 is not a resident nor has a permanent establishment in New Zealand for income tax purposes. On this basis the Company is not liable to attribute profits from the business to New Zealand for income tax purposes prior to July 2010. The Company portfolio from July 2010 is a resident and has a permanent establishment in New Zealand for income tax purposes. On this basis the Company is liable to attribute profits from the business to New Zealand for income tax purposes from July 2010. Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on the tax rate which is enacted or substantively enacted prior to the completion of the financial statements.

(j) Rounding of amounts

Amounts in the financial report have been rounded off to the nearest dollar.

(k) Financial assets backing insurance contract liabilities

The Company has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each balance date as they meet the criteria under NZ IAS 39 Financial Instruments: Recognition and Measurement. Unrealised profits and losses on subsequent measurement to fair value are recognised as profit or loss.

(Overseas company registered in New Zealand under the Companies Act 1993) Notes to the financial statements for the year ended 31 December 2010

1. Summary of significant accounting policies (continued)

(k) Financial assets backing insurance contract liabilities (continued)

Fair value is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as Bills of Exchange.
- Fair value of fixed interest securities is taken as the bid price of the instrument.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

Interest income is brought to account as it is earned.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(I) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(m) Receivables

Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

(n) Payables

These amounts are carried at book value, which approximates fair value and represents liabilities for goods and services provided to the Company prior to the end of the financial year that were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Goods and Services Tax

The Company portfolio prior to July 2010 is not a resident in New Zealand for GST purposes. In addition, as the services provided by the Company prior to July 2010 are deemed to be performed outside of New Zealand, there is no requirement for the Company to be registered for GST in New Zealand. The Company portfolio from July 2010 is a resident in New Zealand for GST purposes. In addition, as the services provided by the Company from July 2010 are performed in New Zealand, the Company is registered for GST in New Zealand. All amounts are shown exclusive of Goods and Service Tax (GST) except for receivables and payables that are stated inclusive of GST.

(p) Non resident withholding tax

The Company is subject to a premium withholding tax of 3% on the gross premiums received in respect of nonlife insurance business. However, no premium withholding tax will apply to the closed warranty, bond and surety businesses as these businesses do not constitute insurance for the purposes of the premium withholding tax.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

1. Summary of significant accounting policies (continued)

(q) Cash and cash equivalents

For the purpose of the statement of financial position, cash comprises cash on hand that is available on demand and deposits held at call with financial institutions. Cash on hand, deposits at call and bank overdrafts are carried at principal amount.

2. Summary of significant actuarial assumptions

The effective date of the actuarial valuation on outstanding claims liability is 31 December 2010. The liability valuation was prepared by the Actuarial team and reviewed by the Appointed Actuary, Mr. Kaise Stephan FIAA, FNZSA. The process indicates that the Appointed Actuary is satisfied with the nature, sufficiency and accuracy of the data provided upon which the outstanding claims liabilities have been determined. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of NZ IFRS 4 Insurance Contracts and consistent with the New Zealand Society of Actuaries Professional Standard Number 4, "General Insurance Business".

(a) Key actuarial valuation assumptions

(i) Outstanding claims liabilities

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, claims that have been incurred but not reported (IBNR), and claims that have been incurred but not enough reported (IBNER), and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims liability is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs.

To determine outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and use the results to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, and historical industry loss ratios. Underlying judgments and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analyzed separately, adjustments to actuarial models and related data for known business changes and the effect of recent or pending litigation on future claims settlements.

(ii) Key actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

	2010	2009
Weighted average term to settlement (years)	0.7	0.6
Inflation rate	0.0%	0.0%
Discount rate	3.4%-7.3%	4.3% - 7.0%
Claims handling expense ratio	1.5%	1.5%
Risk margin	23.1%	25.5%

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

- 1. Summary of significant actuarial methods and assumptions (continued)
- (a) Key actuarial valuation methods and assumptions (continued)

(iii) Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

Weighted average term to settlement

The weighted average term to settlement relates to the number of years or duration until the payments are made on average (inflated and discounted). The payment pattern is selected based on historical settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

Inflation rate

Insurance costs are subject to inflationary pressures. Due to the very short tail nature of the businesses and the advanced run-off stage of the non-resident portfolio, no explicit inflation allowance has been made.

Discount rate

In order to determine the interest rates used to discount the undiscounted liabilities, an analysis of the term structure of risk-free interest rates was prepared. The yield structure of New Zealand government bonds as at 31 December 2010 (the last business day in 2010) is used to derive the future effective annual interest rates.

· Claims handling ratio

New Zealand and International Financial Reporting Standards require insurers to establish a provision for outstanding claims, which includes an allowance for claims handling expenses (CHE). The claims handling ratio is determined by conducting an expense analysis on the running costs related to claims personnel.

Risk margin

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes. The uncertainty margins have been set to the theoretical maximum to allow for high volatility due to the small size of the total portfolio. For the same reason, diversification benefits have not been allowed for. The overall position is intended to approximate the 75% probability of sufficiency scenario.

(b) The effect of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

· Weighted average term to settlement

A decrease in average term to settlement would imply that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have a opposite effect on outstanding claims liabilities.

Discount rate

The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.

• Claims handling ratio

An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding change on outstanding claims liabilities.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2009

- 2. Summary of significant actuarial methods and assumptions (continued)
- (b) The effect of changes in key actuarial assumptions (continued)

· Risk margin

The outstanding claims liability includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding change in the overall outstanding claims liabilities.

(c) Sensitivity analysis of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions. Each change has been calculated in isolation of the other changes.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 2.5%, a 1% increase would mean a 3.5% inflation rate. The movements in the net outstanding claims liability would have an opposing net impact on the profit before tax for a year.

Variable	Movement in variable	Change in discounted outstanding claim liability
		\$'000
Weighted average term to settlement	+10%	54
	-10%	98
Discount rate	+1%	(35)
	-1%	36
Claims handling expense ratio	+1%	54
•	-1%	(54)

3. Risk management policies and procedures

The Company carries on insurance business in New Zealand in the non life insurance segment.

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Risk management is the process of identifying, analysing, controlling, monitoring, and reporting risks that could have a material impact on the operations of the Company. Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk. The Company's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this pate.

(a) Risk management objectives and policies for mitigating financial risks

Objectives

Through its insurance operations the Company is exposed to financial risks such as credit risk, liquidity risk and market risk. The Company's risk management framework seeks to minimise the potential adverse effects of these risks on its financial performance. The key objective of the Company's financial management strategy is to ensure sufficient liquidity is available at all times to meet its financial obligations, including settlement of insurance liabilities, and to optimise the Company's investment returns.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

3. Risk management policies and procedures (continued)

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risks and concentration:

- A mandate is in place that limits all New Zealand dollar investments to be in New Zealand government bonds.
- The credit risk in respect of client balances: Premium paid by managing general agents are paid net of commission so that no commission liability exists until a premium is paid.

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the statement of financial position.

	Carrying amount		
	2010 \$	2009 \$	
Cash and cash equivalents	1,602,010	2,060,600	
Financial assets at fair value through profit or loss		E45 445	
- Debt securities	511,045	515,145	
Amount due from agencies in respect of outstanding premium	2,713,096	1,656,758	
Amounts recoverable from reinsurer	6,576,275	3,502,479	
Sundry debtors	3,075,519	643,328	
Profit commission recoverable	238,732	140,153	
Total	14,716,677	8,518,463	
No financial assets are either past due or impaired			
Grade 1-3 (Standard & Poor's A- to AAA)	9,166,613	7,914,020	
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	5,550,064	604,443	
Total	14,716,677	8,518,463	

All financial assets carried at fair value through profit or loss are categorised as level 2 of the fair value measurement hierarchy. The fair value of level 2 financial assets are measured by using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The Company has a significant credit exposure to its reinsurer Münchener Rückversicherungs-Gesellschaft has a Standard and Poor's credit rating of AA-.

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policy and procedures are in place to mitigate the Company's exposure to liquidity risk:

- The Company maintains a sufficient portfolio of liquid financial assets that are readily convertible to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Company's reputation.
- The Company maintains financial assets with similar duration as the underlying reinsurance contract liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

3. Risk management policies and procedures (continued)

(ii) Liquidity risk

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining contractual obligations.

2010	Up to a year \$	1-5 years \$	Over 5 years \$	Total \$
Payables	4,945,437	-	-	4,945,437
Reinsurance profit commission payable	238,732	_	-	238,732
Outstanding claims	6,656,982	139,504	-	6,796,486
Total	11,841,151	139,504		11,980,655
2009				
Payables	2,071,311	-	-	2,071,311
Reinsurance profit commission payable	140,153	-	-	140,153
Outstanding claims	3,063,010	439,469	_	3,502,479
Total	5,274,474	439,469	<u>-</u>	5,713,943_

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The following policy is in place to mitigate the Company's exposure to market risk:

- The Company manages its risk within an Asset and Liability Management (ALM) framework. The ALM
 framework forms an integral part of the insurance risk management policy and ensures the Company
 maintains financial assets with similar duration and cash flow characteristics as the underlying insurance
 contract liabilities of the business. This minimises the risk of interest rate movements resulting in a mismatch between the value of the assets and the liabilities.
- The Company does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

(iv) Interest rate risk

The Company has determined that all financial assets held are assets backing insurance contract liabilities. The investment income of the Company will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and shareholder equity will be minimal for investment assets backing most insurance contract liabilities, as the asset and liability profile is closely matched.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

3. Risk management policies and procedures (continued)

(iv) Interest rate risk (continued)

The Company's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial asset are set out below:

2010	Weighted average interest rate	Floating interest rate \$	Fixed in Up to 1 year \$	nterest matu 1 to 5 years \$	ring in: Over 5 years \$	Total \$
Cash Investments	2.60%	1,602,010	-	-	-	1,602,010
Government bonds	6.00%			511,045	-	511,045
Total		1,602,010	-	511,045	-	2,113,055
2009 Cash	2.25%	2,060,600	-	. 	-	2,060,600
Investments Government bonds	6.00%	· •	-	515,145	. •	515,145
Total		2,060,600	-	515,145	-	2,575,745

A +/- 1% movement in the Government Bonds interest rate would have an impact of \$5,110 (\$2009: \$5,151) on the profit or loss. A +/- 1% movement in the bank interest rate would have an impact of \$16,020 (\$2009: \$20,606) on the profit or loss.

(v) Currency risk

The Company operates predominantly in New Zealand. Assets are maintained in the local currency to match the expected liabilities. Hence the Company's currency risk is not considered to be of a material nature.

(vi) Other price risk

The Company does not trade derivatives or hold equity securities in another entity, therefore there is no material exposure to other price risk.

(b) Risk management objectives and policies for mitigating insurance risks

Objectives

The Company's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk as the risk of loss, of inadequate claims handling, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to assure:
 - Adherence to competency based underwriting guidelines and limits.
 - Improving underwriting platform and pricing tools.
 - Sufficient business pricing peer-reviews.
 - Competency based peer reviewing of all business.
 - Rigorous analysis of: Contemporaneous & Periodic Renewal Monitoring Reports.
- Monitoring insurance risk by reporting and responding to incidents.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

- 3. Risk management policies and procedures (continued)
- (b) Risk management objectives and policies for mitigating insurance risks

(i) Concentrations of insurance risk

The Company's exposure to concentrations of insurance risk is lessened by diversification across a number of different portfolio segments. The Company conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its head office.

(ii) Exposure to risk

The Company actively manages its exposure to risks by applying prudent underwriting controls to renewals and new business and in managing claims in order to enhance its financial performance. The key policies in place to mitigate insurance risk include:

Management reporting

The Company utilises comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims.

Underwriting and claims management procedures

Underwriting procedures are documented and include limits to delegated authorities and signing powers. Internal auditors from the parent entity review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

(c) Capital management

(i) Regulatory capital

There is no prescribed capital standard for general insurers operating in New Zealand. The level of capital held by the Company is regularly monitored relative to a Board approved buffer capital policy. It also takes into account the fit of the activity with the longer term strategic objectives of its ultimate parent company Münchener Rückversicherungs-Gesellschaft AG in order to maximise shareholder value.

The goal of the current capital management plan for the Company is to keep positive net assets at all times and to have a buffer over and above the compulsory minimum statutory deposit of NZ\$500,000.

(ii) Ratings capital

The Company maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of the Company and demonstrate to the stakeholders the ability to pay claims for the long term. Rating agencies assess the financial strength of the Great Lakes Reinsurance UK Plc. The Company is classified as a branch of Great Lakes Reinsurance UK Plc. Therefore the Company obtained the same rating as Great Lakes Reinsurance UK Plc based on ratings published by Standard & Poor's Ratings services as 31 December 2009. The Company manages its capital rating by performing periodical analysis using Standard & Poor's Capital model.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

3. Risk management policies and procedures (continued)

(d) Development of claims

Information about actual claims compared to previous estimates is provided below for claims for business for which uncertainty about the amount and timing of claim payments is not typically resolved within one year.

	2007 and prior	2008	2009	2010	
	\$	\$	\$	\$	
Estimate of gross ultimate claims cost					
At end of underwriting year	8,798,103	11,147	1,348,469	4,828,520	
One year later	9,660,721	-	6,944,367	-	
Two years later	7,625,864	-	-		
Three years later	9,131,089	<u>.</u>	-	-	
	2007 and prior	2008	2009	2010	Total
	\$	\$	\$	\$	\$
Current estimate of ultimate claims cost	9,131,089	-	6,944,367	4,828,520	20,903,976
Cumulative gross payments	7,809,697		5,007,922	299,204	13,116,823
Undiscounted outstanding claims for the four most recent underwriting years	1,321,392	- ·	1,936,445	4,529,316	7,787,153

The Company is fully reinsured through a quota share and facultative obligatory reinsurance contract with Munchener Rückversicherungs-Gesellschaft, therefore the net ultimate claims cost is nil.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

4. Revenue from operating activities

	2010 \$	2009 \$
Insurance revenue		
Premium revenue	24,090,670	5,265,510
Reinsurance recoveries revenue/(expense) Reinsurance exchange commissions	8,668,344	(962,739)
Total insurance revenue	17,966,755 50,725,769	2,917,373 7,220,144
Total insulance levenue	30,725,769	1,220,144
Other revenue		
Management fees	192,198	175,513
Investment income	65,330	38,496
Unrealised investment gains/(losses)	(32,325)	(13,973)
Total other revenue	225,203	200,036
Total revenue from operating activities	50,950,972	7,420,180
Note that the Company only has general insurance contracts.		
5. Expenses from operating activities		
Outwards reinsurance expense	24,090,670	5,265,510
Claims expense/(recoveries)	8,750,742	(962,739)
Underwriting expenses	17,626,755	2,917,373
Other expenses	367,130	5,259
Total expenses from operating activities	50,835,297	7,225,403
Note that the Company only has general reinsurance contracts.		
6. Taxation		
(a) Income tax expense		
Current tax-current year	10,059	-
Deferred tax-current year	(9,818)	
Income tax expense	241	
b) Reconciliation of income tax expense to prima facie tax payable		
Profit from ordinary activities before income tax	115,675	194,777
Prima facie tax payable at the New Zealand Tax rate of 30% (2009: 30%) Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	34,703	58,433
Non assessable income	(35,163)	(58,433)
Income tax effect of change in tax rate	701	-
Income tax expense	241	
•		

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

7. Net claims incurred

	2010					
	Current year	Prior year	Total	Current year	Prior year	Total
	\$	\$	\$	\$	\$	\$
Gross claims expenses/(recoveries)						
Gross claims incurred - undiscounted	3,135,742	5,642,000	8,777,743	1,678,554	(2,650,552)	(971,998)
Discount movement	(44,497)	17,497	(27,001)	(19,410)	28,669	9,259
Gross claims expenses	3,091,245	5,659,497	8,750,742	1,659,144	(2,621,88)	(962,739)
Reinsurance and other recoveries revenue/(expense)						
Reinsurance and other recoveries revenue - undiscounted	3,100,640	5,594,704	8,695,345	1,678,554	(2,650,552)	(971,998)
Discount movement	(44,497)	17,497	(27,001)	(19,410)	28,669	9,259
Reinsurance and other recoveries revenue	3,056,143	5,612,201	8,668,344	1,659,144	(2,621,883)	(962,739)
Net claims incurred	35,102	47,296	82,398	· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·	

Current period claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years. Note that the Company only has general insurance contracts.

8. Underwriting result

	2010 \$	2009 \$
Premiums revenue	24,090,670	5,265,510
Outwards reinsurance	(24,090,670)	(5,265,510)
Net premium		-
Claims expense	(8,750,742)	962,739
Reinsurance recoveries	8,668,344	(962,739)
Underwriting expenses	(17,626,755)	2,917,373
Reinsurance exchange commission	17,626,755	(2,917,373)
Administration commission income	340,000	
Underwriting result	257,602	
Note that the Company only has general insurance contracts.		
9. Current assets – cash		
Cash at bank	1,602,010	2,060,600
Total	1,602,010	2,060,600

Cash at bank bears average interest of 2.6% (2009: 2.25%). The interest income earned prior to July 2010 is credited to the account of Corion Pty Limited as agent for Great Lakes, post July 2010 this is retained by the Company.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

10. Financial assets

	2010 \$	2009 \$
Debt securities - New Zealand government bond	511,045	515,145
Total financial assets – fair value through profit or loss	511,045	515,145
Current financial assets Non-current financial assets	511,045	515,145
Changes in the fair value of financial assets through profit or loss are recorded statement of comprehensive income.	as revenue/ex	opense in the
11. Deferred tax		
Deferred tax asset		
Deferred tax asset relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:		
Gross LAE current year Debtors	9,828 (10)	-
Total	9,818	-
12. Current liabilities – payables		
Amount due to related party Amount due to reinsurer Amount due to others	81,775 4,806,212 57,450	174,076 1,564,740 332,495
Total	4,945,437	2,071,311
13. Outstanding claims liability		
(a) Outstanding claims liability		
Central estimate Risk margin	5,633,055 1,265,362	2,874,156 703,253
Total outstanding claims liability – undiscounted	6,898,417	3,577,409
Discount	(101,931)	(74,930)
Total outstanding claims liability - discounted	6,796,486	3,502,479
Current-discounted Non-current - discounted	6,656,982 139,504	3,063,010 439,469
Total outstanding claims liability - discounted Movement:	6,796,486	3,502,479
The movement in the outstanding claims liability in the financial year is set out below:		
Opening balance Additional provisions recognised Liabilities paid	3,502,479 8,545,233 (5,251,226)	4,869,411 (783,177) (583,755)
Closing balance	6,796,486	3,502,479

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

13. Outstanding claims liability (continued)

(b) Inflation and discount rates

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a discount rate.

14. Unearned premium liability

Current	2010 \$ 7,538,808	2009 \$ 5,890,148
Non-current Total	7,538,808	5,890,148
15. Remuneration of auditors		
KPMG-Audit fees	22,885	3,000
	22,885	3,000

16. Directors' disclosure

The following persons were directors of the Company during the financial year and up to the date of this report:

- G Guelfand
- D Höpke (resigned 31 December 2010)
- G Funke (appointed 1 February 2011)
- N Smith
- P Göschl
- A Medniuk (Appointed 1 January 2010)
- A Pröbstl (Appointed 1 January 2010)

17. Contingencies

The Company has no known contingent liabilities or contingent assets at the reporting date or the prior year reporting date.

18. Commitments

(a) Capital commitments

There have been no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

(b) Lease commitments

There have been no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

19. Events occurring after the end of the reporting date

No significant events have occurred subsequent to the end of the reporting date.

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2010

20. Related party transactions

(a) Parent entities

The ultimate parent entity is Münchener Rückversicherungs-Gesellschaft , a company incorporated in Germany with limited liability.

(b) Directors

Disclosures relating to directors are set out in Note 16.

No provision for doubtful receivables has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful receivables due from related parties.

(c) Guarantees

No guarantees have been given to or received from any related parties that are outside the normal trading arrangements.

(d) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates (including market rental rates). Outstanding balances are unsecured and are repayable in cash.

(e) Outwards reinsurance

The Company is protected by a Facultative Obligatory reinsurance contract with the parent entity, Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability.

21. Credit rating

At the date of this report, the Company has a credit rating of AA- from Standard & Poor's (2009: AA-) and a credit rating of A+ from AM Best (2009: A+).

(Overseas company registered in New Zealand under the Companies Act 1993)

Directors' Declaration

The Board of Directors is pleased to present the financial statements of Great Lakes Reinsurance (UK) PLC (overseas company registered in New Zealand under the Companies Act 1993) for the year ended 31 December 2010, and the auditors' report thereon.

In the Directors' opinion, the financial statement and notes set out on pages 2 to 19:

- (a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December 2010 and the results of operations for the year ended on that date.
- (b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993 and the Companies Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the Company will be able to pay all debts or claims as and when they are due. The shareholders of the Company have exercised their right under Section 211 (2) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of Section 211 (1) of the Act.

Signed in London on <u>Hear</u> 2011 in accordance with a resolution of the Directors.

Director

Director



Audit report

To the shareholders of Great Lakes Reinsurance (UK) PLC (overseas company registered in New Zealand under the Companies Act 1993)

Report on the Financial Statements

We have audited the financial statements of Great Lakes Reinsurance (UK) PLC (overseas company registered in New Zealand under the Companies Act 1993) ("the Company") on pages 1 to 19. The financial statements comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Company.



Opinion

In our opinion the financial statements of Great Lakes Reinsurance (UK) PLC (overseas company registered in New Zealand under the Companies Act 1993) on pages 1 to 19:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Company as at 31 December 2010 and of its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

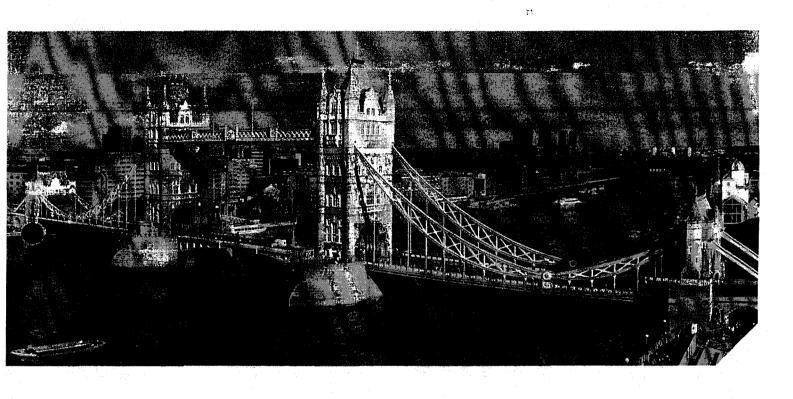
- · we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Great Lakes Reinsurance (UK)
 PLC (overseas company registered in New Zealand under the Companies Act 1993) as far as appears from our examination of those records.

KPMS

KPMG

Sydney

25 May 2011



ANNUAL REPORT 2010 Great Lakes Reinsurance (UK) PLC







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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.

Kels 4	2010	2009	
Gross Written Premium Em	1,776.0	1,449.7	Gross premium written before outwards remains and
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 expense to gross premium earned
Profit Before Tax	22.7	. 67.5	Operating profit from ordinary activities before tax
Shareholder's Funds Em	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.
		and the same	

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 GREAT LAKES REINSURANCE (UK) PLC Annual Report 2010

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 Facsimile: +44 (0)20 3003 7010

Email: correspondence@greatlakes.co.uk

Auditors

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

Bankers

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

Registered Number

2189462

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 nonmanufacturing 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 31 December 2010

D.S. Höpke 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 To

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
TECH NICAL 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	201 £'00		2009 £′000
INVE	STMENTS				
	Financial investments	10	541,15	0	510,994
	Deposit assets		93,66	3	84,849
			634,81	3	595,843
	Investment in subsidiary		5	0	50
REINS	SURERS' SHARE OF TECHNICAL PROVISION	vs		arro a dima	
	Unearned premium	16	800,49	6	657,343
	Claims outstanding	16	1,957,24	9	1,768,312
		*	2,757,74	5	2,425,655
DEBT	ORS	**************************************	The second secon		· · · · · · · · · · · · · · · · · · ·
	Arising out of direct insurance operations	11	396,85	i i	346,925
	Arising out of reinsurance operations	12			4
	Deferred tax	9	1	7	21
	Other debtors	21	30,91	9	13,285
			427,78	7	360,235
THE	R ASSETS				
	Cash at bank	13	40,48	9	42,177
REP/	AYMENTS AND ACCRUED INCOME	-			
	Accrued interest		6,39	3	5,170
	Deferred acquisition costs	17	222,75	3	169,497
			229,14	6	174,667
FOTA	L ASSETS		4,090,03	<u> </u>	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 CREDITORS	18	536	700
CREDITORS			
Arising out of direct insurance operations	19	353,952	302,193
Arising out of reinsurance operations	20		
Ansing out of reinsurance operations	20	-	1,339
Deposit liabilities	20	125,301	1,339 108,451
	20	125,301 1,391	
Deposit liabilities	21		108,451 11,945
Deposit liabilities Taxation		1,391	108,451 11,945 22,307
Deposit liabilities Taxation		1,391 15,281	108,451

Approved by the board on 30 March 2011.

P. Göschl - Chief Executive Officer

G. Guelfand - Chief Financial Officer

NOTES TO THE ACCOUNTS

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.

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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	premiums before tax assets	Gross premiums written	Profit/(Loss) before tax	Net assets	
				2009 £'000	2009 £'000	2009 £'000
BY GEOGRAPHICAL SEC	GMENT		-			
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

	Direct marine & aviation	Direct property	Direct general liability & other	Direct motor	Total direct	Re- insurance accepted	Total
2010	£′000	6000	£'000	£'000	£000	£'000	£′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
	Direct marine & aviation	Direct property	Direct general liability	Direct motor	Total direct	Re- insurance accepted	Total
2009	£'000	£'000	& other £'000	£'000	£′000	£'000	9000
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 prémium paid	(10,315)
Liabilities ceded	9,679
	(606)
	(636)
· .	(030)

5. Investment Income

			2010 £'000	2009 £'000
Investment In	come		9,365	13,370
Realised gains	s/(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
135	123
17	17
128	111
86	147
91	1
	£'000 135 17 128 86

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
598	790
15	37
-	202
613	1,029
	£'000 598 15

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
Profit before tax Corporation tax at 28% (2009: 28%)	6,362	67,526 18,907
Profit before tax	22,722	67,526
	CONTRACTOR OF THE CONTRACTOR O	
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)

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

	С	urrent 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 transfe	er -	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	Expense provision 2009
	£'000	£.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).

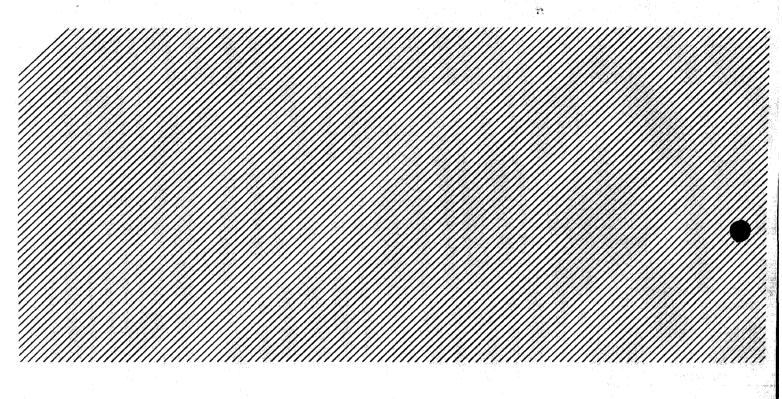
c) Other Debtors and Creditors Other Debtors include only balances owed by third parties. Other Creditors includes £3,833,000 (2009: £12,630,000) owed to group companies.

22. Leases

		2010 £'000	Land and Building	2009 £'000
Annual commitments under non-cancellable operating leas	ses are as follows:			
Operating leases which expire in over five years	ses are as follows:	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

Great Lakes Reinsurance (UK) PLC Plantation Place

Plantation Place 30 Fenchurch Street London EC3M 3AJ United Kinghom

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Cash flow statement: Great Lakes Reinsurance UK PLC

	2010	2009
	(£000)	(£000)
Net cash receipts from insurance activities	73,400	68,724
Net operating expenses paid	(34,542)	(20,593)
Interest received from AFS Investments	14,864	21,911
Net other operating cashflows	(27)	1,756
I. Operating Activities	53,695	71,798
Cash flow from financing activities	0	0
II. Interest Paid (Financing)	0	0
Net cash flow from taxation	(16,898)	(33,219)
III. Taxation	(16,898)	(33,219)
Capital expenditure	0	0
IV. Capital Expenditure	0	0
Net acquisitions & disposals	0	0
V. Acquisitions & Disposals	0	0
Dividend payments	(7,500)	(55,200)
VI. Equity Dividends Paid	(7,500)	(55,200)
Net sale/purchase of AFS investments	(30,984)	33,319
VII. Portfolio Investments	(30,984)	33,319
		-
Other financing cash flows	0	0
VIII. Financing	0	0
Cash flows for the business year (I.+II.+III.+IV.+V+VI.+VIII.+VIII.)	(1,688)	16,698
Cash at the beginning of the business year	42,177	25,479
Cash at the end of the business year	40,489	42,177

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