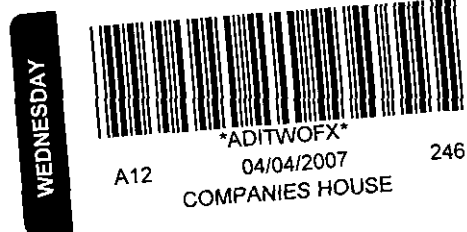


**Munichre General Services Limited**

**Directors' report and financial statements**

For the year ended 31 December 2006  
Registered number 1373441



## Directors' report and financial statements

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

### Principal activities

The principal activity of the company is to provide services to the United Kingdom General Branch of Munich Reinsurance Company.

### Business review

The results for the year are set out on page 4. Throughout 2006 the company continued its role as a service provider to the Munich Re UK General Branch. In the future this role is set to expand further following the launch of a major initiative during 2006. Project "one roof" was commenced, through which Munich Re will relocate most of its non - life London operations in one premises in the city. MRGS will hold the lease and fixed assets of the new offices, as a result of which its balance sheet will grow substantially. The beginnings of this can already be seen in these financial statements.

As the company is a service company to the United Kingdom General Branch and a wholly owned subsidiary of Munich Reinsurance Company the level of risk is limited. There was no dividend declared during 2006 (2005: none) and directors recommend transferring the profit for the year to retained earnings.

### Directors and directors' interests

The directors who held office during the year were as follows:

Sebastian Hueskes  
Pina Albo

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

### Fixed assets

Information relating to tangible fixed assets is given in note 8 to the financial statements.

### Political and charitable contributions

The company made no political donations during this or the previous year. Charitable donations during the year of £200 were made (2005: £800).

### Disclosure of information to auditors

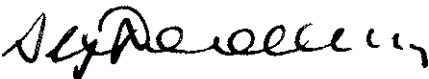
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company, is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Registered Office:  
154 Fenchurch Street  
London  
EC3M 6JJ

  
SG Pendlebury  
Secretary

28 March 2007

## **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 the directors have elected to prepare the financial statements in accordance with United Kingdom accounting standards and applicable law (UK Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit of the company for that period.*

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

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent auditors' report to the members of Munichre General Services Limited

We have audited the financial statements of Munichre General Services Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of total recognised gains and losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities (page 2).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

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

KPMG Audit Plc

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

28 March 2007

**Profit and loss account**

for the year ended 31 December

| 2005<br>£             |  | Note | 2006<br>£             |
|-----------------------|--|------|-----------------------|
| 11,237,853            | Turnover   |      | 13,829,519            |
| (10,498,911)          | Expenses   | 5    | (13,241,309)          |
| <u>738,942</u>        | Operating Profit                                     |      | <u>588,210</u>        |
| 10,000                | Other Income   | 6    | 10,000                |
| <u>748,942</u>        | <b>Profit on ordinary activities before taxation</b> |      | <u>598,210</u>        |
| (302,303)             | Tax on Profit on ordinary activities                 | 7    | (403,597)             |
| <u><u>446,639</u></u> | <b>Retained profit for the financial year</b>        | 13   | <u><u>194,613</u></u> |

The results for the year relate entirely to continuing activities.

**Statement of total recognised gains and losses**

| 2005<br>£      |  | 2006<br>£      |
|----------------|--|----------------|
| <u>446,639</u> | Profit for the financial year                              | <u>194,613</u> |
| (2,291)        | Prior year adjustment - FRS 17                             |                |
| (350,000)      | Prior year adjustment - FRS 21                             |                |
| <u>94,348</u>  | Total gains and losses recognised since last annual report |                |

**Balance sheet**

at 31 December

| 2005<br>£   |  | Note | 2006<br>£   |
|-------------|--|------|-------------|
| 137,703     | <b>Fixed assets</b>  |      |             |
|             | Tangible assets  | 8    | 1,404,163   |
|             | <b>Current assets</b>  |      |             |
| 721,192     | <b>Debtors</b>   |      |             |
| 5,642       | - Amounts owed by group undertakings                           | 9    | 2,597,421   |
| 58,504      | - Mortgage loans to employees                                  | 12   | -           |
| 325,243     | Due within one year  |      | -           |
| 65,408      | Due after one year   |      | 482,023     |
| 1,175,989   | - Sundry receivables   |      | 69,864      |
| 496,821     | Deferred tax   | 7    | 3,149,308   |
| 1,672,810   | Cash at bank and in hand                                       |      | 1,541,328   |
|             |  |      | 4,690,636   |
| (193,116)   | <b>Creditors: amounts falling due within one year</b>          |      |             |
| (301,500)   | - Amounts owed to group undertakings                           | 9    | (35,016)    |
| (764,988)   | - Corporation tax payable                                      |      | (709,554)   |
| (1,259,604) | - Other creditors  | 10   | (4,120,402) |
|             |  |      | (4,864,972) |
| 413,206     | <b>Net current assets/(liabilities)</b>                        |      | (174,336)   |
| 550,909     | <b>Total net assets</b>  |      | 1,229,827   |
|             | <b>Creditors: amounts falling due after one year</b>           |      |             |
| (58,504)    | - Amounts owed to group undertakings                           | 9    | -           |
| -           | - Other creditors  | 10   | (542,809)   |
| 492,405     | <b>Net assets</b>  |      | 687,018     |
|             | <b>Capital and Reserves</b>                                    |      |             |
| 1,000       | Share capital authorised, allotted, called up and fully paid - | 13   | 1,000       |
|             | 510 ordinary shares (2005: 510 'A' shares) of £1 each and      |      |             |
|             | 490 ordinary shares (2005: 490 'B' shares) of £1 each          |      |             |
| 491,405     | <b>Profit and loss account</b>                                 | 13   | 686,018     |
| 492,405     |  |      | 687,018     |

The financial statements were approved by the board on 28 March 2007 and were signed on its behalf by



S Hueskes  
Director

28 March 2007



## Notes

(forming part of the financial statements)

### 1 Accounting policies

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

#### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

#### Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### Turnover

The company derives its income from agency agreements under which it provides services to the United Kingdom General Branch of Munich Reinsurance Company.

#### Depreciation

Motor cars and items of equipment individually costing more than £3,000 are depreciated at the rate of 25% per annum, straight-line from the date when first brought into use. Items individually costing less than £3,000 are included in the profit and loss account as the expenditure is incurred.

#### Taxation

The charge for taxation is based upon the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision is made for deferred tax in accordance with FRS 19.

#### Defined benefit pension scheme

The company operates, in conjunction with associated group companies, a funded defined benefit pension scheme. The scheme closed to new members on 31 December 2000. The assets of the scheme are held separately from those of the company, being invested with the investment subsidiary of Standard Life Assurance Company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme.

#### Cash flow statement

Under FRS 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that its parent undertaking includes the company in its own published consolidated financial statements.

**Notes (continued)**

**2 Pension scheme**

A full valuation of the defined benefit pension scheme was carried out at 31 March 2004 by the scheme actuary. The major assumptions used by the actuary were:

|                          | Funding<br>% per annum | MFR<br>% per annum | Solvency<br>% per annum |
|--------------------------|------------------------|--------------------|-------------------------|
| Rate of interest         |                        |                    |                         |
| - before retirement      | 6.25                   | 9.00               | 4.23                    |
| - after retirement       | 6.25                   | 8.00               | 4.23                    |
| Rate of salary increases | 5.00                   | 6.00               | NA                      |
| Rate of earnings CAP     | 2.50                   | 4.00               | 3.00                    |

The full valuation at 31 March 2004 showed a deficit in funding of £7,992,000. The actuary recommended that contribution rates until March 2007 should be set at 66.9% to decrease the deficit following the impact of poor investment markets and improving mortality trends. Employer contributions for the year into the scheme were £1,229,852 (2005: £1,416,471). As the scheme is closed to new members under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

**3 Staff**

|                       | 2006<br>£        | 2005<br>£        |
|-----------------------|------------------|------------------|
| Salaries              | 4,980,935        | 4,552,589        |
| Social security costs | 456,083          | 526,878          |
| Other Pension costs   | 1,229,852        | 1,429,503        |
|                       | <u>6,666,870</u> | <u>6,508,970</u> |

The average number of persons employed by the company are shown below:

|                         |           |           |
|-------------------------|-----------|-----------|
| Underwriting Services   | 25        | 26        |
| Claims Services         | 19        | 20        |
| Marketing Services      | 5         | 5         |
| Administration Services | 27        | 28        |
|                         | <u>76</u> | <u>79</u> |

**4 Remuneration of Director**

Directors' remuneration consists of the emoluments on behalf of one (2005 - none) director.

|                       | 2006<br>£ | 2005<br>£ |
|-----------------------|-----------|-----------|
| Directors' emoluments | 159,024   | -         |

**Notes (continued)**

**5 Operating expenses**

Operating expenses include the following:

|   | 2006<br>£ | 2005<br>£ |
|---|-----------|-----------|
| Staff costs (Note 3)                        | 6,666,870 | 6,508,970 |
| Depreciation (Note 8)                       | 84,916    | 62,858    |
| Remuneration to the auditors of the company |           |           |
| - Audit fees in respect of statutory audit  | 129,945   | 91,866    |
| - Non audit services                        | 48,688    | 97,340    |
| Operating lease rentals                     |           |           |
| - Land and buildings                        | 1,318,251 | -         |

**6 Other income**

This is derived from an agency agreement whereby the company acts as an appointed representative for Great Lakes Reinsurance (U.K.) plc.

**7 Taxation**

**7a Analysis of tax charge**

|  | 2006<br>£      | 2005<br>£      |
|--|----------------|----------------|
| UK corporation tax on the profit on ordinary activities for the year | 408,053        | 302,483        |
| Change in capital allowances and other timing differences            | (4,456)        | (180)          |
|  | <u>403,597</u> | <u>302,303</u> |

**7b Factors affecting the tax charge for the year**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

|   | 2006<br>£      | 2005<br>£      |
|---|----------------|----------------|
| Profit on ordinary activities before taxation   | 598,210        | 748,942        |
| Profit on ordinary activities multiplied by the standard rate in the UK 30% (2005: 30%) | 179,463        | 224,682        |
| Effects of:   |                |                |
| Expenses not tax deductible for tax purposes  | 243,239        | 70,612         |
| Capital allowances in excess of depreciation  | (14,649)       | 7,189          |
| Current tax charge for the year   | <u>408,053</u> | <u>302,483</u> |

**7c Deferred tax asset**

|   | 2006<br>£     | 2005<br>£     |
|---|---------------|---------------|
| At beginning of year  | 65,408        | 65,228        |
| Deferred tax credit in profit and loss account for the year | 4,456         | 180           |
| At end of year  | <u>69,864</u> | <u>65,408</u> |

Notes (continued)

8 Tangible fixed assets

|                      | Motor<br>Cars | Fixtures<br>fittings and<br>equipment | Total            |
|----------------------|---------------|---------------------------------------|------------------|
| Cost                 | £             | £                                     | £                |
| At beginning of year | 28,281        | 1,382,648                             | 1,410,929        |
| Additions            | -             | 1,351,376                             | 1,351,376        |
| At end of year       | <u>28,281</u> | <u>2,734,024</u>                      | <u>2,762,305</u> |
| Depreciation         |               |                                       |                  |
| At beginning of year | 28,281        | 1,244,945                             | 1,273,226        |
| Charge for year      | -             | 84,916                                | 84,916           |
| At end of year       | <u>28,281</u> | <u>1,329,861</u>                      | <u>1,358,142</u> |
| Net book value       |               |                                       |                  |
| At 31 December 2005  | -             | 137,703                               | 137,703          |
| At 31 December 2006  | <u>-</u>      | <u>1,404,163</u>                      | <u>1,404,163</u> |

9 Ultimate holding company and intercompany balances

The company's parent company and ultimate holding company is Münchener Rückversicherungs-Gesellschaft (Munich Re), a joint stock company incorporated in Germany with limited liability. Copies of Munich Re accounts can be obtained from Königinstrasse 107, 80802 Munich, Germany.

|  | 2006<br>£        | 2005<br>£        |
|--|------------------|------------------|
| The balance due from group undertakings at December 31 |                  |                  |
| - Due within one year                                  | <u>2,597,421</u> | <u>721,192</u>   |
| The balance due to group undertakings at December 31   |                  |                  |
| - Due within one year                                  | (35,016)         | (193,116)        |
| - Due after one year                                   | -                | (58,504)         |
|  | <u>(35,016)</u>  | <u>(251,620)</u> |

10 Other Creditors

|                       | 2006<br>£          | 2005<br>£        |
|-----------------------|--------------------|------------------|
| Sundry Creditors      |                    |                  |
| - Due within one year | (4,120,402)        | (764,988)        |
| - Due after one year  | (542,809)          | -                |
|                       | <u>(4,663,211)</u> | <u>(764,988)</u> |

11 Operating lease commitments

At 31 December 2006, the company had the following annual commitments under operating leases:

|                                   | 2006<br>£          | 2005<br>£ |
|-----------------------------------|--------------------|-----------|
| Land and buildings which expire : |                    |           |
| - after 5 years                   | <u>(1,318,251)</u> | <u>-</u>  |

Notes (continued)

**12 Loans to directors, officers and employees and associated financing**

The company has advanced house purchase loans on mortgages to employees for periods up to twenty-five years. These loans bear interest at 5½% per annum and are financed by matching loans from Münchener Rückversicherungs-Gesellschaft (Munich Re). At December 31 they comprised:

|                     | 2006<br>£ | 2005<br>£     |
|---------------------|-----------|---------------|
| Due within the year | -         | 5,642         |
| Due after one year  | -         | 58,504        |
|                     | <u>-</u>  | <u>64,146</u> |

Interest income of £2,345 (2005:£4,291) was received by the company from these mortgages and paid on to Munich Re.

**13 Reconciliation of movement in shareholders' funds**

|  | Share Capital<br>£ | Profit &<br>Loss<br>Account<br>£ | Total<br>£     |
|--|--------------------|----------------------------------|----------------|
| At 1 January 2006                      | 1,000              | 491,405                          | 492,405        |
| Retained profit for the financial year | -                  | 194,613                          | 194,613        |
| At 31 December 2006                    | <u>1,000</u>       | <u>686,018</u>                   | <u>687,018</u> |

There was an ordinary resolution on 19 June 2006 and 510 'A' shares of £1 each have been reclassified as 510 ordinary shares of £1 each in the capital of the company. In addition, 490 'B' shares of £1 each have been reclassified as 490 ordinary shares of £1 each in the capital of the company.

**14 Related party transactions**

Advantage has been taken of the exemption in FRS8 from disclosing related party information as these accounts relate to a wholly owned subsidiary and the consolidated financial statements in which they are included are publicly available from the address in note 9.