



MASTHEAD INSURANCE UNDERWRITING
LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010



Registered No. 2863362

MASTHEAD INSURANCE UNDERWRITING LIMITED

Contents

Page

2	Company Information
3	Report of the Directors
6	Independent Auditor's Report
7	Profit and Loss Account
8	Balance Sheet
9	Notes to the Financial Statements

MASTHEAD INSURANCE UNDERWRITING LIMITED

Company Information

Directors

Antony Usher (Appointed on 01 January 2011)

Scott Egan (Appointed 07 January 2011)

Brit Corporate Services Limited (Appointed on 01 January 2011)

Secretary

Brit Corporate Secretaries Limited

Registered Office

55 Bishopsgate
London
EC2N 3AS

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors

The Directors present their report and financial statements for the year ended 31 December 2010

Masthead Insurance Underwriting Limited

Registered Number 2863362

Principal activities and review of the business

Corporate member's of Lloyd's are required to hold capital at Lloyd's or procure capital for the benefit of Lloyd's. The capital, or acceptable indemnity is held in trust and known as Funds at Lloyd's ("FAL"). This FAL is intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. The company's principal activity is the holding of assets to support FAL.

During 2010 the Company ceased providing FAL for Brit UW Limited in respect of its participation in syndicate 2987. The Company continues to provide FAL for Brit UW Limited in respect of its participation in run-off Life syndicate 389 and for the benefit of other Group corporate members in respect of historic externally managed syndicate participations. This remaining FAL is provided in the form of cash deposits.

As at 31 December 2010 the investments were held in cash.

During 2010, the majority of the income of the Company derives from foreign exchange gains.

In the opinion of the Directors, the state of affairs of the Company at the end of the year was satisfactory.

Principal risks and uncertainties

The principal risks confronting the Company are credit risk, interest rate risk, price risk and currency risk.

Credit risk is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages this risk by having guidelines that specify the maximum percentage of the portfolios that can be invested in any single counterparty.

At the end of the year Company held investments classified according to the credit ratings of the counterparties as follows:

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors continued

	2010 £	2009 £
Government	-	195,411,486
AAA	-	4,147,199
AA	-	69,565,923
A	-	40,826,403
P1	-	89,361,338
Not rated	-	35,323,903
Total	-	434,636,252

Interest rate risk is the risk that the value and future cash flows of an investment will fluctuate because of changes in interest rates. The Company manages this risk by setting the maximum duration of investments which is an indicator of the sensitivity of the assets to changes in current interest rates.

Price risk is the risk that the value of investments will decrease as a result of changes in market prices. The Company manages this risk by diversifying equity portfolios across sectors and by daily monitoring of the interest rate movements, the credit spreads and the liquidity of each group of fixed income securities.

As at 31 December 2010, US dollar assets exceeded US dollar liabilities by USD 2,313,920 and therefore the Company had an exposure to currency risk at that date.

Employees

All staff in the United Kingdom are employed by the Group services company, Brit Group Services Limited, and full staff cost disclosures are included in the notes to those accounts. Further information on the Group's employment policies can be found in the accounts of Brit Group Services Limited.

Result and dividend

The profit for the year, after taxation is £1,895,351 (2009 £130,760,725)
During the year the Company paid an interim dividend of £87,081,509.

The Directors do not recommend a final dividend for the year ended 31 December 2010 (2009 £nil).

Directors

The names of the Directors throughout the year and as at the date of this report are listed on page 2. D J Douetil and P J Goddard each resigned on 31 December 2010. M Scales resigned on 28 December 2010.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors continued

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 accounting 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 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 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.

Statement of Disclosure of Information to Auditors

The Company's Auditor is Ernst & Young LLP. Each person who is a Director at the date of approval of this Report confirms that

- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- Each Director has taken all the steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

By Order of the Board



Antony Usher

Director

23 March 2011

Masthead Insurance Underwriting Limited

Independent Auditor's Report

To the Member of Masthead Insurance Underwriting Limited

We have audited the financial statements of Masthead Insurance Underwriting Limited for the year ended 31 December 2010 which comprise the profit and loss account and the balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 5, 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 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

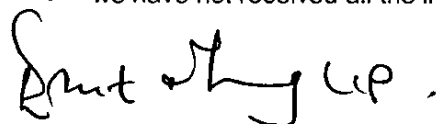
Opinion on other matter prescribed by the Companies Act 2006

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.



T J Leggett (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 March 2011

MASTHEAD INSURANCE UNDERWRITING LIMITED

Profit and Loss Account For the Year Ended 31 December 2010

		Year ended 31 December 2010 £	Year ended 31 December 2009 £
	Notes		
Income from other fixed asset investments	1(c) & 2	1,352,630	22,065,736
Administrative expenses		(138,196)	(679,630)
Other operating income	3	4,122,319	135,604,460
Operating profit		5,336,753	156,990,566
Interest receivable and similar income	4	84,130	296,714
Interest payable and similar charges	5	(3,926,193)	(20,209,583)
Profit on ordinary activities before taxation	6	1,494,690	137,077,697
Taxation on profit on ordinary activities	9	400,661	(6,316,972)
Profit on ordinary activities after taxation		1,895,351	130,760,725

The Company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented

The notes on pages 9 to 14 form part of these financial statements

MASTHEAD INSURANCE UNDERWRITING LIMITED

Balance Sheet

As at 31 December 2010

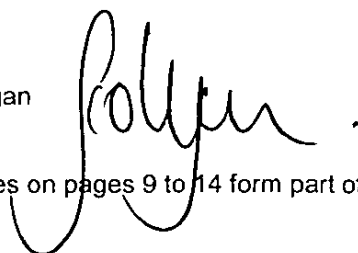
	Notes	2010 £	2009 £
Fixed assets			
Other fixed asset investments	10	-	434,636,252
		-	434,636,252
Current assets			
Deferred taxation	12	475,799	-
Corporation tax		384	-
Cash at bank, deposits and cash in hand		2,353,772	15,552,840
Prepayments and accrued income		5,412	5,688,741
		2,835,367	21,241,581
Creditors Amounts falling due within one year	11	(2,826,984)	(370,172,347)
Net current assets/(liabilities)		8,383	(348,930,766)
Total assets less current liabilities		8,383	85,705,486
Provisions for other risks and charges			
Deferred taxation	12	-	(510,945)
Net assets		8,383	85,194,541
Capital and reserves			
Called up equity share capital	13	100,000	10,062,750
Share premium		-	28,670,103
Profit and loss account		(91,617)	46,461,688
Equity Shareholder's funds	14	8,383	85,194,541

The financial statements on pages 7 to 14 were approved by the Board of Directors on 23 March 2011 and signed on their behalf by -



Antony Usher
Director

Scott Egan
Director



The notes on pages 9 to 14 form part of these financial statements

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with applicable accounting standards

(b) Fixed assets

The Company has designated its other fixed asset investments ("investments") at fair value through profit and loss (FVTPL) which is in accordance with the Company's documented investment strategy. Information relating to investments is provided internally to the Company's Directors on this basis.

The holding of investments is an integral part of the strategic operations of the company and therefore they are disclosed as fixed assets.

The fair values of quoted financial investments are based on current bid prices. If the market for an investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

Unquoted equity investments are initially carried at fair value where this can be reliably determined. Where fair value can not be reliably determined, cost is used as the best estimate of fair value. This is subsequently adjusted whenever events or changes in circumstances indicate that cost may not approximate to fair value. The fair value of an unquoted equity is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models.

Gains and losses on investments designated as FVTPL are recognised through the income statement.

Subsidiary undertakings are stated at cost less provisions for any permanent diminution.

(c) Income from other fixed asset investments

Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholders' right to receive the payment is established.

Realised gains and losses on the disposal of investments arise from the difference between proceeds and cost. Unrealised gains and losses arise from the marking to market of investments.

The holdings of investments is an integral part of the strategic operations of the company and therefore dividends receivable, interest receivable and realised and unrealised gains and losses relating to these investments are therefore shown as a part of operating activities.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements continued

(e) Foreign Currencies

Transactions in foreign currencies other than Sterling, United States dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Assets and liabilities in currencies other than Sterling are translated at the rate of exchange ruling at 31 December of each year. Exchange differences arising on translation are dealt with in the profit and loss account.

(f) Cash flow statement

The Company is exempt from preparing a cash flow statement under FRS 1. Brit Insurance Holdings N V, the ultimate parent company during the year, has prepared a consolidated cash flow statement.

2 Income from other fixed asset investments

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Dividend income	86,838	463,610
Interest income	1,815,252	13,526,588
Realised gains	3,433,866	4,855,304
Unrealised (losses)/gains	(3,983,326)	3,220,234
	<u>1,352,630</u>	<u>22,065,736</u>

3 Other operating income

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Intragroup income	-	21,382,310
Foreign exchange gains	4,122,319	4,252,580
Sundry income	-	52,248
Dividend from subsidiary	-	109,917,322
	<u>4,122,319</u>	<u>135,604,460</u>

4 Interest receivable and similar income

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Interest on cash at bank, deposits and cash in hand	11,426	296,714
Intragroup interest receivable	72,704	-
	<u>84,130</u>	<u>296,714</u>

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements continued

5 Interest payable and similar charges

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Intragroup interest payable	3,926,193	20,209,583

6 Operating profit - continuing operations

The auditor's remuneration is borne by a fellow Group company and amounted to £25,000 (2009 £25,000)

7 Staff costs

There were no staff employed by the Company in the current or prior year

8 Directors' remuneration

None of the Directors received any remuneration for their services to the Company during the year ended 31 December 2010 (2009 Nil)

9 Taxation

(a) Tax on profit on ordinary activities	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Current tax		
UK corporation tax at 28%	(586,083)	(5,806,026)
Total current tax (Note 9(b))	(586,083)	(5,806,026)
Deferred tax		
Originating and reversal of timing differences	1,047,447	(510,945)
Effect of future tax rate changes	(17,622)	-
Adjustments in respect of prior years	(43,081)	-
Total deferred tax (Note 12)	986,744	(510,945)
Tax on profit on ordinary activities	400,661	(6,316,972)

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements continued

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
(b) Factors affecting current tax charge for period		
Profit on ordinary activities before tax	1,494,690	137,077,697
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	418,513	38,381,755
Effects of		
Equity dividends not subject to corporation tax	(24,315)	(30,832,850)
Utilisation of previously unrecognised deferred tax assets on capital losses	-	(510,945)
Realised and unrealised losses	1,047,447	-
Share disposals	(855,562)	(875,931)
Chargeable losses	-	1,667,017
Other adjustments to tax charge in respect of prior years	-	(2,023,020)
Current tax charge for the period Note 9 (a) above	586,083	5,806,026

(c) Factors that may affect future tax charges

The future tax charge for the Company is dependent on the ability of the Company to utilise tax losses

10 Other fixed asset investments

	Total £
Cost at 1 January 2010	430,652,926
Opening unrealised appreciation	3,983,326
Value at 1 January 2010	434,636,252
Sales & maturities - proceeds	(434,086,792)
- realised gains on sales	3,433,866
Decrease in unrealised appreciation	(3,983,326)
Value at 31 December 2010	-
Cost at 31 December 2010	-
Closing unrealised appreciation	-
Value at 31 December 2010	-

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements continued

11 Creditors

	2010 £	2009 £
Amounts falling due within one year		
Amounts due to Group companies	2,826,984	370,075,347
Accruals and deferred income	-	97,000
	<u>2,826,984</u>	<u>370,172,347</u>

12 Deferred taxation

	2010 £	2009 £
Unrealised/realised losses/(gains) on investments	<u>475,799</u>	<u>(510,945)</u>
Undiscounted liability for deferred taxation at the start of the period	(510,945)	-
Deferred tax credit in profit and loss account for period	<u>986,744</u>	<u>(510,945)</u>
Deferred tax asset/(liability) at the end of period	<u>475,799</u>	<u>(510,945)</u>

In determining the deferred tax position group relief available has been taken into account

13 Issued share capital

	2010 £	2009 £
Allotted, called up and fully paid		
400,000 (2009 40,251,000) ordinary shares 25p each	<u>100,000</u>	<u>10,062,750</u>

14 Movement in shareholders' funds

Year ended 31 December 2010

	Called up share capital	Share premium	Profit and loss account	Total Shareholder's funds
	£	£	£	£
At 1 January	10,062,750	28,670,103	46,461,688	85,194,541
Capital reduction	(9,962,750)	(28,670,103)	38,632,853	-
Retained profit for the year	-	-	1,895,351	1,895,351
Dividend paid	-	-	(87,081,509)	(87,081,509)
At 31 December	<u>100,000</u>	<u>-</u>	<u>(91,617)</u>	<u>8,383</u>

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements continued

Year ended 31 December 2009

	Called up share capital	Share premium	Profit and loss account	Total Shareholder's funds
	£	£	£	£
At 1 January	10,062,750	28,670,103	25,618,285	64,351,138
Retained profit for the year	-	-	130,760,725	130,760,725
Dividend paid	-	-	(109,917,322)	(109,917,322)
At 31 December	10,062,750	28,670,103	46,461,688	85,194,541

On 12 February 2010, the Company reduced its share capital to £100,000 and its share premium to £nil with an equivalent amount being credited to retained earnings. On the same date the Company paid an interim dividend of £87,081,509.

15 Financial instruments

The Company has taken advantage of the exemption in Financial Reporting Standard 29 'Financial Instruments: Disclosures' not to provide the disclosures required by this standard. This is by virtue of the entity being included in publicly available consolidated financial statements which include disclosures that comply with this standard.

16 Controlling party

The Company is a wholly owned subsidiary of Brit Investment Holdings Limited. As at 31 December 2010, the ultimate holding company was Brit Insurance Holdings N V, a company registered in the Netherlands. Copies of Brit Insurance Holdings N V accounts can be obtained by writing to PO Box 79083, 1070 NC, Amsterdam, The Netherlands.

17 Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with other members of the Group. This is by virtue of the entity being fully controlled within a group whose consolidated financial statements are publicly available.

18 Contingent liabilities

The Company provides Funds at Lloyd's for Brit UW Limited in respect of run-off Life syndicate 389 by way of deposits. As at 31 December 2010, these amounted to £839,883 (2009: £831,970). It also provides FAL by way of deposits for Group corporate members in respect of historic externally managed syndicate participations. As at 31 December 2010, these amounted to £1,500,256 (2009: £1,500,256).

19 Post balance sheet events

On 9 March 2011, following the acquisition of Brit Insurance Holdings N V by Achilles Netherlands Holdings B V, the ultimate holding company became Achilles Holdings 1 S ar L, a Luxembourg registered company. Copies of Achilles Holdings 1 S ar L accounts can be obtained by writing to 5, rue Guillaume Kroll, L - 1882, Luxembourg.