

SYNDICATE 2791

Report and Financial Statements
31 December 2006

MAP

Underwriting at Lloyd's

CONTENTS

	Page
Chairman's Report	2
SYNDICATE 2791	
UNDERWRITING YEAR DISTRIBUTION ACCOUNTS	
2004 YEAR OF ACCOUNT	
Directors and Administration	4
Managing Agent's Report	5
Statement of Managing Agent's Responsibilities	12
Independent Auditors' Report	13
Profit and Loss Account: Technical Account – General Business	14
Profit and Loss Account: Non-Technical Account	15
Statement of Total Recognised Gains and Losses	16
Balance Sheet	17
Cash Flow Statement	18
Notes to the Accounts	19
SYNDICATE 2791	
ANNUAL REPORT AND FINANCIAL STATEMENTS UNDER UK GAAP	
YEAR ENDED 31 DECEMBER 2006	
Directors and Administration	28
Report of the Directors of the Managing Agent	29
Statement of Managing Agent's Responsibilities	35
Independent Auditors' Report	36
Profit and Loss Account: Technical Account – General Business	37
Profit and Loss Account: Non-Technical Account	38
Statement of Total Recognised Gains and Losses	38
Balance Sheet: Assets	39
Balance Sheet: Liabilities	40
Cash Flow Statement	41
Notes to the Accounts	42

CHAIRMAN'S REPORT

The syndicate results are again presented both in the traditional Lloyd's underwriting format and on an annual accounting basis.

Traditional Result for 2004 and Prospects for Open Years

On a traditional basis, the result for the 2004 and prior years of account is a profit of £44.4 million which equates to 13.6% of Stamp Capacity. This is a pleasing result for a year which had to cope with four Gulf/Florida hurricanes and a share of the 2005 storms for contracts incepting late in 2004.

The prospects for the open years are also encouraging. Although the 2005 account is forecast to be a marginal result, this is creditable in view of the destruction caused by Hurricanes Katrina, Rita and Wilma and reflects the good performance of the balance of the book.

The 2006 year of account has made a very promising start, with a remarkably low level of catastrophe loss activity and continued low loss ratios on non-catastrophic business, but the industry has responded in its usual fashion by becoming aggressively competitive in many classes.

Annual Accounting Result

The result for the calendar year 2006 on an annual accounting basis is a profit of £110.8 million (2005: loss £0.7 million) with a net combined ratio of 78.4% (2005: 104.2%). This substantial improvement over the previous reporting period is due to the low number of natural catastrophe claims and good performance of the other non catastrophe exposed classes of business dented only by an increase in the previously reported hurricane reserves.

Current Challenges

Competitive underwriting conditions are not the only challenges confronting the business. A great deal of time and effort has been spent on reform of the market's operating practices. There has undoubtedly been good progress over the last twelve months towards the goals of improved efficiency but these headline achievements mask the continuing battles that will need to be waged to ensure that the changes are appropriate. Of real concern is the potential damage that ill considered change can inflict on the dynamics of the subscription market which underpins the strength of Lloyd's.

The laudable aim of cost reduction is cited as a principal driver of reform, but there must be recognition that as a market specialising in non standard business our expenses are likely to be higher than for those handling commoditised business. While we do not condone bloated expenses, it is a matter of some frustration that those most vocal in their criticisms of the costs of trading in Lloyd's are often those whose own expense ratios are least impressive.

MAP Strategy

Lloyd's has undergone major changes since MAP was formed seven years ago, and the ease and speed with which we have been able to respond to these changes bear witness to the very real advantages our ownership and operating structure continue to offer, both in terms of cost and flexibility. This is further illustrated by MAP's formation of the first Lloyd's Special Purpose Syndicate to underwrite an additional book of US property catastrophe insurance, enabling us both to capitalise on very specific hard market conditions and to release pressure on Syndicate 2791's aggregate exposure management; the new syndicate commenced trading within four weeks of the initial offer to capital. This would not have been possible without the responsiveness of Lloyd's FPD and regulatory teams, the FSA, and most importantly, the third party capital providers who once again demonstrated that they are an effective and highly cost efficient source of capital.

It is too early to give an update of the prospects for this new venture, but the recent decision by the State of Florida to assume a much greater share of any future hurricane loss will not have helped, and serves as a reminder that our business is subject to the vagaries of lawmakers as well as to forces of nature. Time will tell whether the Florida State Government's gamble comes back to haunt its citizens.

We comment further on the outlook for the Special Purpose Syndicate in the Underwriter's Report.

It is most gratifying that the consistency in strategy continues to be matched by the loyalty of our staff. This continuity is a testament to our sense of shared purpose and is a major strength of the business. I would like to thank them all for their continued hard work.

James Denoon Duncan

Chairman

21 March 2007

SYNDICATE 2791

Underwriting Year Distribution Accounts
2004 year of account

DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent

Managing Agency Partners Limited (MAP)

Directors

J D Denoon Duncan (Chairman)

H R Dumas (Non-executive)

A S Foote (Non-executive)

A Kong

B S McAuley

D E S Shipley (Active Underwriter)

R J Sumner

R K Trubshaw

Company Secretary

B S McAuley

Managing Agent's Registered Office

110 Fenchurch Street

London

EC3M 5JT

Managing Agent's Registration

Registered in England; number: 03985640

SYNDICATE

Active Underwriter

D E S Shipley

Principal Investment Managers

BlackRock, Inc

Registered Auditors

Ernst & Young LLP, London

MANAGING AGENT'S REPORT

The managing agent presents its report on the 2004 year of account of Syndicate 2791 as closed at 31 December 2006.

These accounts have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004. Separate annual accounts under UK GAAP on the calendar year results are available to all the syndicate's members (see pages 28 to 51).

The result for the closing year includes the profit and exchange differences arising from retranslation of the balance sheet, and other than the separate disclosure of exchange, the result for the closed year is identical to that which would have arisen under the former basis of syndicate accounting.

UNDERWRITER'S REPORT

2004 Year of Account

Capacity £325.9 million

The 2004 year has closed with a profit of £44.4 million after all members' personal expenses, equivalent to 13.6% of stamp capacity, compared with the forecast range of 10% to 15%. The result reflects the combination of a small release from the previous three closed years of account, an excellent performance across most of the portfolio and the impact of losses from the four 2004 hurricanes in the year as well as hurricanes Katrina and Rita in 2005.

Development of Closed Years (2003 and prior)

The reinsurance to close received from prior years of account generated a modest profit with savings on the 2003 reserves balanced by small additions to the 2001 and 2002 provisions. Although loss development on the 2001 underwriting year slowed down during 2006 in the normal pattern, there were a couple of small but unexpected movements on the property book, offsetting a release from the Auto Liability account which now seems to have settled down.

The 2002 year saw incurred loss development in some classes a little above our expected levels and we have felt it necessary to make a small increase in the reserves for the year.

The 2003 year has enjoyed some very benign loss trends, particularly on Errors and Omissions and Auto business, although at this early stage only a small release outstanding some £2 million was considered appropriate.

Pure Year 2004

Utilisation of capacity

We did not purchase Qualifying Quota Share reinsurance for the 2004 account. This ensured that the capacity was well employed, although rate of exchange movements again caused dilution, with a final utilisation of 78% of Stamp Capacity at closing exchange rates, compared to 93% at initial premium monitoring rates. Reinsurance spend was again modest, maximising the net retained premium as a percentage of capacity.

Performance review

The underlying performance of the portfolio, excluding contracts affected by windstorm losses, was again excellent, with low loss ratios in all classes in spite of a slight deterioration in overall achieved rates as a percentage of our required technical rate compared with 2003. While premium volumes in most classes were below those for 2003 and there were fewer highly priced opportunities, the overall profitability excluding the 2004 and 2005 hurricanes was in line with the preceding year. The casualty loss ratios were particularly low, although with signs of a lengthening tail, both in our own 2001 and 2002 data and in prior years' market statistics, reserves have been maintained at similar levels to those established for the 2003 account when it closed last year.

For the pure 2004 year of account our windstorm losses were £55 million gross, reducing to £36 million net of reinsurance from the 2004 hurricanes, and £26 million gross, £16 million net from the 2005 hurricanes, with a further IBNR reserve of just over £4 million. The bulk of the losses emanated from the property catastrophe and pro rata reinsurance accounts, with a mix of Florida specific and nationwide programmes involved. The loss was somewhat

MANAGING AGENT'S REPORT

continued

exacerbated by our having written a number of back up reinsurances at very high rates after the first two hurricanes; while this was frustrating given subsequent storms, we believe it was technically an appropriate strategy, which would have had a positive effect on the result in all but the extraordinary circumstances prevailing in that particular year.

2005 Year of Account Forecast

Our forecast range for the 2005 year of account is -2% to 3% on Stamp Capacity after all expenses. This range is unchanged since the previous quarter, after having improved from the initial range published in August 2006.

Overview

The forecast reflects a combination of substantial gross and net losses from the three hurricanes, particularly Katrina, offset by another good year in non-catastrophic classes. While rates have reduced in many classes of business since 2003, the incurred loss ratios excluding catastrophe losses are only a little higher than for 2003 and 2004 at this stage, reflecting both good underwriting discipline and fairly benign fire and casualty loss experience.

Class of Business Review for 2005 and 2006

Direct and facultative property

Our relatively defensive posture in 2004 and early 2005 resulted in our hurricane gross losses being contained at a manageable level.

As a result we have been able to take full advantage of the sharp rate increases and tightening policy forms prevalent on US business after the storms. Loss experience has been extremely favourable for the 2006 year so far, and rates remain very attractive in many classes, although the non-US market has softened markedly as a result of the pressure from ratings agencies and a fashion to diversify exposures away from the USA and Caribbean.

Property reinsurance

Our pro rata treaty, per risk and catastrophe excess of loss accounts all sustained substantial losses in the 2005 hurricanes, and these have increased somewhat during 2006, although both 2005 and 2006 years of account benefited from a quiet 2006 wind season. The losses forced a radical recalibration of the catastrophe loss models in general use in the market, simultaneously increasing demand for coverage and forcing reinsurers to reduce their participations, creating extremely hard market conditions through the second half of 2006. Loss ratios are very low for the 2006 account in all these sectors.

Third party liability

Very benign loss development on the 2003 and 2004 years has inevitably fuelled increased competition since then, with a number of competitors seduced by the promise of a permanent reduction in loss costs as a result of widespread tort reform. We have taken a more sceptical view, and in both 2005 and 2006 years were prepared to lose business that did not generate adequate prospective returns. The book has therefore reduced as a proportion of the overall syndicate portfolio, with this reduction most marked in contractors' liability. Premium volumes in both medical malpractice and errors and omissions were also down compared to the 2004 year of account.

Accident and health

2005 was the first full year for our Sports Personal Accident account, and although this has a longer tail than the catastrophe excess of loss and medical expense book written previously, the early indications are very promising; while premium volume is a little lower than we had hoped, the loss ratios to date are well within our expectations.

Marine and offshore energy

We have continued to outperform our competitors in most areas of the marine account; while the losses sustained in Katrina and Rita were substantial and spread across both the 2004 and 2005 accounts, they were less disastrous than for many of our peers. Rates on energy risks moved up sharply after the hurricanes and have stayed at relatively high levels since; the syndicate has been able to capitalise on this with increased lines and new participations on previously underpriced business. Marine business remains patchy, and our opportunistic approach reflects this.

MANAGING AGENT'S REPORT

continued

War and political risks

These classes remain competitive, although there is still considerable untapped potential for growth in the terrorism line, as many clients do not buy the cover. The syndicate was not exposed to any of the terrorist incidents in 2005 or 2006, and has written almost no political risks insurance, reflecting the continued weak market in the class.

Specialist lines

Both 2005 and 2006 are showing promising figures in these disparate lines, although the final 2006 premium volume will be considerably below that for 2005 after we parted company with the Engineering Consortium. While results had been good, we were uncomfortable with some aspects of the process and took what we felt was appropriate action. Other areas, particularly the entertainment related classes, remain extremely profitable.

Motor

In spite of continued softening in the market, our incurred loss ratios have remained very stable, a tribute to the attention to detail and underwriting discipline that have been maintained throughout the last three years. Premium volume has continued to reduce from year to year, as business that does not satisfy our prospective margin requirements is allowed to go to our increasingly hungry competition.

Current Trading Conditions

As indicated last year, the market remains sharply divided between the areas that sustained windstorm losses, where rates remain strong, and those geographical regions or classes of business that have been profitable, where conditions continue to soften. We have benefited from a mix of business that includes substantial premium volumes in classes such as US property insurance, per risk excess reinsurance and onshore and offshore energy, where rates for non-catastrophic perils have been dragged up by the presence of windstorm risk in the transaction, and its consequent pressure on aggregate exposure management for insurers and reinsurers alike.

In response to the hard market for US property catastrophe business, we formed Syndicate 6103 to write an additional line of 43% of the Syndicate 2791 exposure line in this class. While demand during the year end renewal season was not as strong as had been anticipated, rates were still above those for January 2006 although a little down on the levels achieved in June and July. We anticipate that Syndicate 2791 will still write close to its maximum risk appetite. The Governor of Florida has enacted legislation increasing the capacity of the state windstorm pool, the FHCF, by some US\$12 billion, and while this will inevitably have an impact on the supply:demand balance, the coverage applies only to homeowners' business, and the market capacity will still be completely exhausted if insurers operating in the state buy up to the levels indicated by their modelling software and by the ratings agencies. To the extent that they do not, this gives us further flexibility in deciding to what extent to buy expensive retrocessional cover.

Elsewhere the approach has had to be that of a rearguard action, defending well-priced business by giving prompt, technically competent and imaginative service and managing our involvement down where competitors' appetites force rates to marginal or unacceptable levels.

The Future

Whatever people might say, the insurance industry continues to make the same mistakes over and over again at each turn of the underwriting cycle. The causes range from pressure on public company management to deliver steady top line growth in their quarterly earnings announcements, to disjointed strategic management, to devaluing technical skills in underwriting and claims handling, or simple herd behaviour. As a relatively small business we cannot expect to change this behaviour in our competitors and clients; instead we must seek to ensure that we avoid the same pitfalls and maximise the ensuing benefits.

Over the period from about 1996 to 2004, the industry seemed to be moving in lock-step, with all sectors weakening or strengthening in unison, but as a result of the windstorms in 2004 and 2005 this pattern has been disrupted and we are now seeing considerable variation in terms of business between classes. These are conditions in which our unconventional model should generate significant trading advantages.

MANAGING AGENT'S REPORT

continued

We will remain an owner-managed independent underwriting business using private capital to respond in a rapid and flexible way to the challenges the market presents. Our costs will continue to be tightly managed, and our team will bring skill and experience to their decision making. This simple recipe has enabled us to produce strong results in the aggregate over the first four closed years of trading, and should continue to serve us well for the future, whatever conditions the market and the forces of nature combine to produce.

Analysis of premium written by syndicate classification

	Gross written £'000	Net written £'000
Direct and facultative property	48,344	40,230
Third party liability	86,673	86,066
Accident and health	11,938	11,960
Marine and offshore energy	28,073	27,891
War, terrorism and political	11,723	11,218
Property reinsurance	106,457	90,241
Motor	41,340	41,212
Specialist lines	9,067	8,514
Total	343,615	317,332

Investment Return

The syndicate investment portfolio in terms of return can be viewed in three distinct pots: cash or cash equivalents, fixed income securities and equity funds. Our investment philosophy is to ensure that the more conservative investments match the insurance liabilities. We do not generally subscribe to the theory that matching the duration of our liabilities with assets is necessarily a good thing, nor is it mandatory for our business. We do seek to maximise our investment return by adjusting the asset mix within our risk appetite.

Our investment return contributed £18.6 million to the result – the rate of return achieved was 1.5% in 2004, 3.3% in 2005 and 5.4% in 2006 calendar years.

The syndicate assets are pooled over all years of account and the investment return is allocated to each year on a consistent formula which calculates the actual assets attributable to each year of account.

The cash portfolio benefited from the change made by the central banks in the funds rates over the year. Our fixed income portfolio was held at a duration of less than one year and thus could take advantage of the higher yields available in the period. Our investment philosophy is to minimise exposure to credit risk at this point in the economic cycle, this is done by setting high minimum credit rating on securities bought.

Our equity portfolio is allocated to six managers. The overall return in the year of 16% (2005: 7.1%) is above the S&P 500 return of 13.6%.

The syndicate undertakes no lending of securities and does not undertake exchange rate management. As the syndicate makes profit payments in both US Dollars and GB Pounds, we do not seek to hedge exchange exposure.

Reinsurance Debtors

Recoverable amounts from reinsurers have fallen to £17 million (2005: £21.5 million). This is remarkable as we have added a further year of account, which itself suffered significant hurricane losses. Our insurance debtors on paid claims are £0.9 million, virtually all of which is due from requests made to reinsurers within 90 days of the year end. There are no provisions for bad debts on the syndicates' reinsurance balances.

MANAGING AGENT'S REPORT

continued

An analysis of the security rating for the debtors on our balance sheet at 31 December is set out below:

Debt table by security rating

Standard & Poor's rating	On paid claims £m	On outstanding claims £m	On IBNR £m	Total £m
AA and above	0.8	4.5	2.8	8.1
A	0.1	4.6	3.2	7.9
BBB	–	–	–	–
BB and below	–	0.8	0.2	1.0
	0.9	9.9	6.2	17.0

2005 Year of Account Forecast

An estimate of the 2005 underwriting result as at 36 months is set out below:

	£'000
Stamp capacity	325,558
Gross premiums written	360,175
Net premiums written	317,077
Claims incurred – net of reinsurance	(231,492)
Net operating expenses	(88,173)
Investment return	16,452
Profit commission	(1,545)
Personal expenses	(5,046)
Estimate of profit for the year of account after personal expenses	7,273

Assumptions underlying the 2005 Estimated Result:

- (i) There will be no material reinsurance failures.
- (ii) Syndicate expenses, incurred in the calendar year 2007 to be charged to the 2005 year of account, will continue the pattern of previous years as refined by current budgets.
- (iii) Exchange rates at 31 December 2007 will not be materially different from those at 31 December 2006.
- (iv) Investment returns attributable to 2005 during 2007: Stg 5.0%, Can\$ 5.0%, Euro 5.0% and US\$ 4.5%.
- (v) Claims will be paid in line with our expected development patterns.
- (vi) No material back year surplus or deficit arises from the RITC.

MANAGING AGENT'S REPORT

continued

Summary of Closed Years of Account

	Notes	2001	2002	2003	2004
Syndicate allocated capacity (£m)		139.6	264.2	325.7	325.6
Number of Underwriting Members		3,041	2,895	1,147	1,256
Aggregate net premiums (£m)		164.0	275.8	351.6	317.3
Results for illustrative share of £10,000		%	%	%	%
Utilisation of capacity at premium income monitoring rates of exchange		127.0	117.8	108.6	93.8
Gross premiums written (% of illustrative share)		152.1	127.0	122.8	105.3
Net premiums (% of illustrative share)		117.4	104.4	107.9	97.4
Balance on technical account (% of gross premiums)		(10.8)	20.8	23.5	11.8
Results for illustrative share of £10,000		£	£	£	£
Gross premiums	1	15,206	12,702	12,280	10,526
Net premiums		11,743	10,440	10,794	9,745
Reinsurance to close from an earlier year of account		–	1,887	2,624	4,599
Net claims		(5,643)	(3,071)	(3,117)	(4,250)
Reinsurance to close		(3,795)	(3,235)	(4,528)	(6,055)
Underwriting profit		2,305	6,021	5,773	4,038
Acquisition costs	1	(3,345)	(2,667)	(2,605)	(2,294)
Other syndicate operating expenses, excluding personal expenses		(392)	(123)	(1)	(96)
Exchange movement on foreign currency translation	3	–	–	96	(302)
Net investment income		300	232	287	554
Illustrative personal expenses:					
Managing agent's fee		(65)	(65)	(65)	(55)
Profit commission	2	–	(491)	(509)	(303)
Other personal expenses		(100)	(125)	(104)	(175)
(Loss)/profit after illustrative personal expenses and illustrative profit commission		(1,297)	2,782	2,872	1,363

1. Gross premiums and syndicate operating expenses have been grossed up for brokerage costs and the results for 2001 and 2002 have been restated.
2. Profit commission is reported on a pro forma basis before the application of the deficit clause brought forward.
3. The results for 2003 and 2004 are stated at average rates; 2001 and 2002 are stated at closing rates.

MANAGING AGENT'S REPORT

continued

Disclosure of Information to the Auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of Auditors

The managing agent intends to reappoint Ernst & Young LLP as the syndicate's auditors.

By order of the Board

D E S Shipley

Active Underwriter

Managing Agency Partners Limited

21 March 2007

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 ('the Lloyd's Regulations') require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December.

The managing agent must prepare the syndicate underwriting year accounts which give a true and fair view of the result of the closed year of account.

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Lloyd's Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

to the Members of Syndicate 2791 – 2004 Closed Year of Account

We have audited the syndicate's underwriting year accounts for the 2004 closed year of account for the three years ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the related notes 1 to 21 and the Statement of Managing Agent's Responsibilities. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors of the Managing Agent and Auditors

As described in the Statement of Managing Agent's Responsibility, the managing agent is responsible for the preparation of underwriting year accounts in accordance with applicable United Kingdom Generally Accepted Accounting Practice.

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

We report to you our opinion as to whether the underwriting year accounts give a true and fair view of the result of the closed year of account in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you if, in our opinion the Managing Agent's Report is not consistent with the underwriting year of accounts, if the managing agent in respect of the syndicate has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Managing Agent's 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 underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the underwriting year accounts, and of whether the accounting policies are appropriate to the syndicate'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 underwriting year accounts 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 underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the result of the 2004 closed year of account.

Ernst & Young LLP

Registered Auditor

London

21 March 2007

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

for the 2004 Closed Year of Account for the three years ended 31 December 2006

	Notes		2004 £'000
Syndicate allocated capacity			325,645
Earned premiums net of reinsurance:			
Gross premiums written	3	343,615	
Outward reinsurance premiums		(26,283)	
Earned premiums, net of reinsurance			317,332
Reinsurance to close premiums received, net of reinsurance	4		149,771
Allocated investment return transferred from the non-technical account			18,027
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(171,632)	
Reinsurers' share		33,219	
		(138,413)	
Reinsurance to close premium payable, net of reinsurance		(184,840)	(323,253)
Acquisition expenses		(74,695)	
Reinsurers' commissions and profit participations		1,838	
Other expenses	6	(22,261)	
Net operating expenses			(95,118)
Balance on the technical account – general business	10		66,759

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

for the 2004 Closed Year of Account for the three years ended 31 December 2006

	Notes	2004 £'000
Balance on the technical account for general business		66,759
Investment income	9	15,394
Unrealised gains on investments		6,141
Unrealised losses on investments		(869)
Investment expenses and charges	9	(2,639)
Allocated investment return transferred to general business technical account		(18,027)
Profit for the 2004 closed year of account		66,759

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 2004 Closed Year of Account for the three years ended 31 December 2006

	Note	2004 £'000
Profit for the 2004 closed year of account		66,759
Exchange difference on foreign currency translation	11	(22,368)
Total recognised gains and losses		44,391

BALANCE SHEET

2004 Closed Year of Account as at 31 December 2006

	Notes	2004 £'000
Assets		
Investments	12	243,296
Debtors	13	16,561
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5	16,160
Other assets		
Cash at bank and in hand		17,853
Other	14	10,729
		28,582
Prepayments and accrued income		
Accrued interest		548
Prepayments and other accrued income		103
Total assets		305,250
Liabilities		
Amounts due to members	15	43,742
Reinsurance to close premium payable to close the account – gross amount	5	201,000
Other creditors	16	59,817
Accruals and deferred income		691
Total liabilities		305,250

The financial statements on pages 14 to 26 were approved by the Board of Managing Agency Partners Limited on 13 March 2007 and were signed on its behalf by:

D E S Shipley
Active Underwriter

R J Sumner
Finance Director

21 March 2007

CASH FLOW STATEMENT

for the 2004 Closed Year of Account for the three years ended 31 December 2006

	Notes	2004 £'000
Net cash inflow from operating activities	17	264,823
Transfer to members in respect of underwriting participations		(649)
	18	264,174
Cash flows were invested as follows:		
Increase in cash holdings	18	17,853
Increase in overseas deposits		10,729
Net portfolio investment	19	235,592
Net investment of cashflows		264,174

NOTES TO THE ACCOUNTS

1. Basis of Preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2004 year of account which has been closed by reinsurance to close at 31 December 2006; consequently the balance sheet represents the assets and liabilities of the 2004 year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the three year period until closure.

As each syndicate year of account is a separate annual venture, comparatives are not required to be disclosed.

2. Accounting Policies

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

Premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned.

Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Reinsurance to close premium payable

The reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. It also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified.

The reinsurers' share is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

NOTES TO THE ACCOUNTS

continued

2. Accounting Policies *continued*

Reinsurance to close premium payable continued

The two most critical assumptions as regards claims estimates are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments.

Reinsurance bad debt

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

Foreign currency translation

Transactions, other than reinsurance to close, in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for each calendar year in which they are booked. Reinsurance to close premiums receivable and payable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

All exchange differences arising on retranslation of opening balances and between average and year-end rates are included in the statement of total recognised gains and losses.

Where Canadian dollars or Euros are sold or bought relating to the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

The following rates of exchange to sterling have been used in the preparation of these accounts.

	Year end rate 2006	2006	Average rates during 2005	2004
USD	1.96	1.84	1.82	1.83
CAD	2.28	2.09	2.21	2.38
EUR	1.48	1.47	1.46	1.47

Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the bid price at which they are traded on the balance sheet date or the last trading day before that date.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and market value at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year.

Allocation of investment return

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are generated by insurance related assets.

NOTES TO THE ACCOUNTS

continued

2. Accounting Policies *continued*

Operating expenses

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

Pension costs

MAP operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of profit subject to the operation of a deficit clause. This does not become payable until after the year of account closes.

3. Segmental Analysis

An analysis of the underwriting result before investment return is set out below:

	Gross written premiums (note 1) £'000	Gross claims incurred (note 2) £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance					
Accident and health	6,314	(4,017)	(1,785)	59	571
Fire and other damage of property	45,659	(26,781)	(13,950)	7,370	12,298
MAT	23,639	(17,343)	(6,045)	2,491	2,742
Motor (other classes)	23,973	(12,167)	(7,076)	24	4,754
Third party liability	37,445	(15,626)	(12,277)	(542)	9,000
Miscellaneous	6,697	(2,784)	(1,945)	311	2,279
	143,727	(78,718)	(43,078)	9,713	31,644
Reinsurance	199,888	(143,867)	(52,130)	(695)	3,196
	343,615	(222,585)	(95,208)	9,018	34,840
RITC	165,927	(150,046)	90	(2,079)	13,892
Total	509,542	(372,631)	(95,118)	6,939	48,732

Commission on direct gross premiums written amount to £34,514,000.

1. Gross premiums earned are identical to gross premiums written.
2. Gross claims incurred comprises gross claims paid and gross reinsurance to close premium payable.
3. All premiums are concluded in the UK.

The exchange loss relating to the opening reinsurance to close is £16,307,000 as shown in note 11.

NOTES TO THE ACCOUNTS

continued

3. Segmental Analysis *continued*

The geographical analysis of premiums by destination is as follows:

	£'000
UK	17,183
Other EU countries	28,522
US	206,548
Other	91,362
Total	343,615

Other, above, includes worldwide income of £49,923,000.

4. Reinsurance to Close Premium Receivable

	£'000
Gross reinsurance to close premium receivable	165,927
Reinsurance recoveries anticipated	(16,156)
Reinsurance to close premium receivable, net of reinsurance	149,771

5. Reinsurance to Close Premium Payable

	2003 and prior £'000	2004 pure £'000	2004 £'000
Gross outstanding claims	65,184	38,779	103,963
Reinsurance recoveries anticipated	(6,642)	(3,272)	(9,914)
Net outstanding claims	58,542	35,507	94,049
Provision for gross claims incurred but not reported	53,572	42,349	95,921
Reinsurance recoveries anticipated	(5,658)	(588)	(6,246)
Provision for net claims incurred but not reported	47,914	41,761	89,675
Unallocated loss and loss adjustment expenses	626	490	1,116
Net premium for reinsurance to close	107,082	77,758	184,840

6. Net Operating Expenses

	£'000
Personal expenses	7,951
Outwards profit commission	9,416
Other administrative expenses	4,962
(Profit) on exchange	(68)
	22,261

Administrative expenses include:

	£'000
Auditors' remuneration	
Fees for the audit of the syndicate	171
Taxation compliance services	5
Actuarial consultancy services	51

Members' standard personal expenses comprise managing agent's fees, profit commission, Lloyd's subscriptions and central fund contributions.

NOTES TO THE ACCOUNTS

continued

7. Staff Numbers and Costs

All staff are employed by the managing agency. The following amounts were recharged to the syndicate in respect of salary costs:

	£'000
Wages and salaries	2,541
Social security costs	279
Other pension costs	242
	3,062

The average number of employees employed by the managing agency but working for the syndicate during the three years was as follows:

	Number
Administration and finance	19
Underwriting	21
Claims	4
	44

8. Emoluments of the Directors of Managing Agency Partners Limited

The directors of Managing Agency Partners Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	£'000
Emoluments	698

The active underwriter received the following remuneration charged as a syndicate expense:

	£'000
Emoluments	169

Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

9. Investment Return

	£'000
Investment income	
Income from investments	11,900
Gains on the realisation of investments	3,494
	15,394
Investment expenses	
Investment management expenses, including interest	595
Losses on realisation of investments	2,044
	2,639

Investment return is stated net of fees and commissions where these are not separately disclosed to us.

NOTES TO THE ACCOUNTS

continued

10. Balance on Technical Account

	£'000
Balance excluding investment return and operating expenses	
Profit attributable to business allocated to the 2004 pure year of account	143,859
(Loss) attributable to business reinsured into the 2004 year of account	(9)
	143,850
Allocated investment return transferred from the non-technical account	18,027
Net operating expenses	(95,118)
	66,759

11. Exchange Differences on Foreign Currency Translation

Exchange differences on foreign currency translation arise as follows:

	£'000
On 2004 balances brought forward	(4,060)
On RITC brought forward	(16,807)
On transactions during 2006: from average to year end rates	(1,501)
	(22,368)

12. Financial Investments

	Market value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	64,512	62,215
Debt securities and other fixed income securities	143,541	143,300
Participation in investment pools	11,791	11,260
Other loans	15,833	15,823
Deposits with credit institutions	7,619	7,619
	243,296	240,217

13. Debtors

	£'000
Arising out of direct insurance operations:	
Due from policyholders	–
Due from intermediaries	4,167
Arising out of reinsurance operations	11,059
Members' agents' fees advances	850
Other	485
	16,561

14. Other Assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

15. Amounts Due to Members

	£'000
Profit for the 2004 closed year of account	44,391
Less continuous solvency transfers	(649)
Amounts due to members at 31 December 2006	43,742

NOTES TO THE ACCOUNTS

continued

16. Creditors

	£'000
Arising out of direct insurance operations	
Policyholders	–
Intermediaries	140
Arising out of reinsurance operations	7,813
Other	9,416
Inter year loan	42,448
	59,817

17. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	£'000
Operating profit on ordinary activities	66,759
Exchange differences on foreign currency translation	(22,368)
Realised and unrealised investments (gains)/losses	(7,704)
Net reinsurance to close payable	184,840
(Increase) in debtors, prepayments and accrued income	(17,212)
Increase in creditors, accruals and deferred income	60,508
Net cash inflow from operating activities	264,823

18. Movement in Opening and Closing Portfolio Investments Net of Financing

	£'000
Net cash inflow	17,853
Cash flow – increase in overseas deposits	10,729
Cash flow – portfolio investments	235,592
Movement arising from cash flows	264,174
Changes in market value and exchange rates	7,704
Total movement in portfolio investments	271,878
Portfolio at 1 January 2004	–
Portfolio at 31 December 2006	271,878

Movement in cash, portfolio investments and financing

	At 1 January 2004 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2006 £'000
Cash at bank and in hand	–	17,853	–	17,853
Overseas deposits	–	10,729	–	10,729
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	–	50,822	13,690	64,512
Debt securities and other fixed income securities	–	147,225	(3,684)	143,541
Participation in investment pools	–	13,113	(1,322)	11,791
Other loans	–	15,785	48	15,833
Deposits with credit institutions	–	8,647	(1,028)	7,619
Total portfolio investments	–	235,592	7,704	243,296
Total cash, portfolio investments and financing	–	264,174	7,704	271,878

NOTES TO THE ACCOUNTS

continued

19. Net Cash Inflow/(Outflow) on Portfolio Investments

	£'000
Purchase of shares and other variable yield securities	(56,141)
Purchase of debt securities and other fixed income securities	(2,238,335)
Purchase of participation in investment pools	(17,283)
Movement in other loans	(15,785)
Movement of deposits with credit institutions	(8,647)
Sale of shares and other variable yield securities	5,319
Sale of debt securities and other fixed income securities	2,091,110
Sale of participation in investment pools	4,170
Net cash (outflow) on portfolio investments	(235,592)

20. Related Parties

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agency and syndicate.

The executives' interests in the ordinary share capital of MAP Equity Limited, which has a share capital of £250,000, during 2006 were as follows:

	A Shares (voting)	B Shares (non-voting)
D E S Shipley	30,000	–
R K Trubshaw	26,250	–
A Kong	18,750	–
J D Denoon Duncan	–	8,333
B S McAuley	–	12,500
R J Sumner	–	8,334

MAP Capital Limited commenced underwriting on the 2001 year of account. For the 2006 year of account MAP Capital Limited provided £120,375,000 of capacity on Syndicate 2791 (2005: £108,437,500) representing 30.1% of capacity (2005: 33.3%). MAP has no direct interest in the share capital of MAP Capital Limited.

Certain executives hold ordinary shares in a number of listed companies that transact business with the syndicate. The aggregate of these holdings does not exceed 1% of the issued ordinary share capital of these companies.

Certain functions in relation to administration and systems have been sub-contracted to companies related to Omni Bridgeway BV which has a 9.9% interest in the shares of the intermediate parent company, Managing Agency Partners Limited. These arrangements are on an arms length basis. The charges for these services for the 2004 year of account totalled £757,000.

There are no other transactions or arrangements requiring disclosure.

21. Contingent Liabilities

Litigation

In the course of conducting insurance business, the syndicate receives claims in respect of its underwriting activities and becomes involved in actual or threatened litigation arising therefrom including actions in respect of subrogation, asset recovery or coverage disputes. Prudent estimates of costs arising in the defence of all these claims have been made in these accounts. The board of the managing agent considers each action carefully and appropriate provisions are made accordingly. There are no such provisions required at the year end.

Letters of credit

The syndicate has provided letters of credit to certain insureds and reinsureds to cover losses that might arise on their contracts written in the ordinary course of business. These amount to US\$14.6 million; the letters of credit are fully collateralised with cash deposits held by Citibank, on the syndicate's account, of US\$14.7 million.

SYNDICATE 2791

Annual Report and Financial Statements under UK GAAP
Year ended 31 December 2006

DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent

Managing Agency Partners Limited (MAP)

Directors

J D Denoon Duncan (Chairman)

H R Dumas (Non-executive)

A S Foote (Non-executive)

A Kong

B S McAuley

D E S Shipley (Active Underwriter)

R J Sumner

R K Trubshaw

Company Secretary

B S McAuley

Managing Agent's Registered Office

110 Fenchurch Street

London

EC3M 5JT

Managing Agent's Registration

Registered in England; number: 03985640

SYNDICATE

Active Underwriter

D E S Shipley

Principal Investment Managers

BlackRock, Inc

Registered Auditors

Ernst & Young LLP, London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31 December 2006.

The principal activity of the syndicate is that of writing insurance and reinsurance business.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the 2004 Regulations').

Separate underwriting year accounts for the closed 2004 year of account are attached to these accounts in the section headed Underwriting Year Distribution Accounts (pages 4 to 26).

UNDERWRITER'S REPORT

A Review of the Calendar Year Result

These financial statements are prepared focusing on the calendar year results under UK Generally Accepted Accounting Principles (GAAP) for insurance companies rather than the underwriting year figures prepared prior to 2005.

The 2006 calendar year produced a very acceptable GAAP profit of £110.8 million (2005: loss £0.7 million) on earned premiums of £393.3 million gross of acquisition and reinsurance costs.

All years of account contributed to this result, with the favourable development on the non-catastrophic component of the 2004 and 2005 years covering the increase in hurricane loss of £31 million by a very comfortable margin, a small profit on the closed 2003 and prior years, and a strong result from the earned component of the 2006 underwriting year of account in spite of conservative loss ratio assumptions. The table below sets out the contribution of each year of account to the profit for the period of £110.8 million.

Movement on underwriting years of account during the 2006 calendar year

	2003 and prior periods £'000	2004 £'000	2004 and prior periods £'000	2005 £'000	2006 £'000	Total £'000	2005 £'000
Gross written premium	374	(7,636)	(7,262)	27,551	429,770	450,059	369,110
Net premium earned	1,495	8,822	10,317	143,166	239,808	393,291	310,105
Net claims incurred	(1,504)	(11,890)	(13,394)	(80,615)	(94,606)	(188,615)	(230,813)
Acquisition costs	52	(2,316)	(2,264)	(34,240)	(52,871)	(89,375)	(74,957)
	43	(5,384)	(5,341)	28,311	92,331	115,301	4,335
Operating expenses	38	(1,749)	(1,711)	(1,966)	(26,113)	(29,790)	(17,328)
Investment income	–	13,232	13,232	7,467	4,611	25,310	12,285
Annual accounted profit	81	6,099	6,180	33,812	70,829	110,821	(708)
Currency translation differences	(238)	(4,063)	(4,301)	2,404	(4,661)	(6,558)	8,349
Total recognised gains and losses	(157)	2,036	1,879	36,216	66,168	104,263	7,641
As previously reported		42,512	42,512	(38,162)	–	4,350	75,717
Cumulative pure year result		44,548	44,391	(1,946)	66,168	108,613	83,358
Distributions and advances						(649)	(34,262)
Members' balances						107,964	49,096
Net annual accounting ratios:							
Claims ratio						48%	74%
Expense ratio						30%	30%
Combined ratio						78%	104%

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

A Review of the Calendar Year Result continued

With no major catastrophe losses in 2006, and with the increased rates and premium volumes, property reinsurance was the major contributor to the calendar year result, although there were profits in all major lines of business, notably the casualty classes, auto and marine as well as property insurance.

There is a considerable volume of premium to be earned in 2007 but unless there is a return to the frequency of natural perils losses seen in 2004 and 2005 the year should perform well.

Written premium in the calendar year by syndicate classification

	2006 Gross written £'000	2006 Net written £'000	2005 Gross written £'000	2005 Net written £'000
Direct and facultative property	70,964	54,556	44,715	34,194
Property reinsurance	185,378	163,861	136,137	106,354
Third party liability	71,682	71,630	80,052	78,255
Accident and health	17,708	17,685	17,177	17,142
Marine and offshore energy	50,515	50,467	29,725	29,327
War, terrorism and political	9,991	9,994	10,355	11,417
Specialist lines	9,939	9,571	10,730	10,269
Motor	33,882	33,683	40,219	40,239
Total	450,059	411,447	369,110	327,197

2005 Hurricanes – Katrina, Rita and Wilma

The magnitude and complexity of the 2005 hurricanes merits specific comment.

Our combined reserve for the three hurricanes at 31 December is set out below:

2005 Hurricane events

Class of business	Ultimate loss At 31 December 2006 £m	Ultimate loss At 31 December 2005 £m
Direct property	46.3	50.7
Marine	27.2	21.3
Reinsurance treaty	129.4	114.8
Gross loss	202.9	186.8
Net reinstatement premium payable	17.7	6.4
Net reinsurance recoverable	(103.5)	(106.5)
Total net loss	117.1	86.7
The gross loss above comprises:		
Paid and outstanding claims	190.7	158.5
IBNR	12.2	28.3

Our 2005 hurricane reserves increased principally due to the reinsurance loss flowing to a greater extent from commercial rather than residential insureds as was anticipated at the end of 2005. In addition, the level of marine losses on Hurricane Rita exceeded our forecast.

Current Trading Conditions

As indicated last year, the market remains sharply divided between the areas that sustained windstorm losses, where rates remain strong, and those geographical regions or class of businesses that have been profitable and where conditions continue to soften. We have benefited from a mix of business that includes substantial premium volumes in classes such

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

as US property insurance, per risk excess reinsurance and onshore and offshore energy, where rates for non-catastrophic perils have been dragged up by the presence of windstorm risk in the transaction, and its consequent pressure on aggregate exposure management for insurers and reinsurers alike.

In response to the hard market for US property catastrophe business, we formed Syndicate 6103 to write an additional line of 43% of the 2791 line in the class. While demand in the year end renewal season was not as strong as had been anticipated, leaving considerable volumes of uncovered exposures for many clients, rates were still above those for January 2006 although a little down on the levels achieved in June and July. We anticipate that Syndicate 2791 will still write close to its maximum risk appetite.

The Governor of Florida has enacted legislation increasing the capacity of the state windstorm pool, the FHCF, by some US\$12 billion, and while this will inevitably have an impact on the supply:demand balance, the coverage applies only to homeowners' business, and the market capacity will still be completely exhausted if insurers operating in the state buy up to the levels indicated by their modelling software and by the ratings agencies. To the extent that they do not, this gives us further flexibility in deciding to what extent to buy expensive retrocessional cover.

Elsewhere the approach has had to be that of a rearguard action, defending well-priced business by giving prompt, technically competent and imaginative service and managing our involvement down where competitors' appetites force rates to marginal or unacceptable levels.

The Future

Whatever people might say, the insurance industry continues to make the same mistakes over and over again. The causes range from pressure on public company management to deliver steady top line growth in their quarterly earnings announcements, to disjointed strategic management, to devaluing technical skills in underwriting and claims handling to simple herd behaviour. As a relatively small business we cannot expect to change this behaviour in our competitors and clients; instead we must ensure that we avoid the same pitfalls and maximise the ensuing benefits.

Over the period from about 1996 to 2004, the industry seemed to be moving in lock-step, with all sectors weakening or strengthening in unison, but as a result of the windstorms in 2004 and 2005 this pattern has been disrupted and we are now seeing considerable variation in conditions. These are conditions in which our unconventional model should generate significant trading advantages.

We will remain an owner-managed independent underwriting business using private capital to respond in a rapid and flexible way to the challenges the market presents. Our costs will continue to be tightly managed, and our team will bring skill and experience to their decision making. This simple recipe has enabled us to produce strong results in the first five years of trading, and should continue to serve us well for the future, whatever conditions the market and the forces of nature combine to produce.

FINANCIAL REPORT

Investment Return

The syndicate investment portfolio in terms of return can be viewed in three distinct pots: cash or cash equivalents, fixed income securities and equity funds. Our investment philosophy is to ensure that the more conservative investments match the insurance liabilities. We do not subscribe to the theory that matching the durations of our liabilities with assets is necessarily a good thing, nor is it mandatory for our business. We do seek to maximise our investment return by adjusting the asset mix within our risk appetite.

Our investment return contributed £26.0 million (2005: £12.7 million) to the annual result.

This is a 107% increase over 2005 at constant rates of exchange, and reflects both a 30% increase in our invested assets and an enhanced return on those assets.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

Investment Return continued

The cash portfolio benefited from the change made by the central banks in the funds rates over the year. The short duration of our fixed income portfolio, resulted in it benefiting from the change in the central bank rates, without suffering the steeping of the yield curve. Our investment philosophy as far as fixed income is concerned is to minimise exposure to credit risk at this point in the economic cycle, this is done by setting high minimum credit rating on securities bought.

Our equity portfolio is allocated to six managers. The overall return in the year of 16% (2005: 7.1%) is above the S&P 500 return of 13.6%.

The syndicate undertakes no lending of securities and does not undertake exchange rate management. As the syndicate makes profit payments in both US Dollars and GB Pounds, we do not seek to hedge exchange exposure.

Reinsurance Debtors

Recoverables from reinsurers have fallen to £47 million (2005: £137 million), this is a product of a lack of catastrophes during 2006 and the collections against our 2005 hurricane losses flowing though well. Our insurance debtors on paid claims are only £6.8 million, of which 98.3% is due from requests made to reinsurers within 90 days of the year end. There are no provisions for bad debts on the syndicates' reinsurance balances.

An analysis of the security rating for the debtors on our balance sheet at 31 December is set out below.

Debt table by security rating

Standard & Poor's rating	On paid claims £m	On outstanding claims £m	On IBNR £m	2006 Total £m	2005 Total £m
AA and above	5.5	17.4	7.3	30.2	47.0
A	0.9	8.0	4.0	12.9	79.4
BBB	–	–	–	–	1.7
BB and below	0.5	3.0	0.5	4.0	8.8
	6.9	28.4	11.8	47.1	136.9

Our reinsurance security committee has authorised the use of a number of the insurance companies set up after the 2005 hurricanes. These companies have either no, or a low, Standard and Poores' security rating. As a result they are only accepted on to the syndicate's reinsurance programme if they offer acceptable alternative direct security (Letters of Credit or syndicate specific trust accounts). Of the debtors in the table above with a rating lower than BB, the syndicate has access to £36 million of assets as security should the reinsurer fail to pay valid claims when they fall due.

Risk Management

We have established a risk management framework whose primary objective is to protect the syndicate from events which negatively impact current and future returns.

Principal Risks

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover, that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient.

Underwriting strategy is agreed by the Board and set out in the Syndicate Business Plan which is submitted to Lloyd's each year. Processes are in place to identify, quantify and manage aggregate exposures and technical prices within each of our underwriting classes. Reinsurance is purchased, where appropriate to our risk appetite and reduces the retained financial impact of catastrophic loss. Reserves set are subject to stress testing and independent review.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

Credit risk

Credit risk is the risk of default or the inability of one or more of the syndicate's reinsurers or brokers to settle their debts as they fall due.

Reinsurance is only placed with security that meets the criteria agreed by the Board. Use is made of independent rating agencies. Business is only accepted through accredited Lloyd's brokers who are reviewed by the Agency's Security Committee and business accepted via binding authority is subject to a process of rolling review. Aggregate exposure to any counterparty is monitored regularly and a robust system of credit control is in place, itself subject to the internal Security Committee. Exposure to investment counterparties is monitored by a specialist investment reporting company and reviewed by the Investment Committee. This Committee includes a non-executive director with expertise in US fund management. Investment guidelines are set and monitored in view of the Syndicate's liability exposures and their durations.

Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. Liquidity management forms an important part of the financial management practices of the syndicate. Cash flow projections and budgetary controls are maintained and reported upon to the Board.

Market risk

Market risk is the potential adverse financial impact of changes in value of financial instruments caused by fluctuations in foreign currency, interest rates or equity prices. The potential impact of market risk elements is reported to the board and the potential financial impact of changes in market value is monitored through the ICA process.

Foreign currency exchange risk

We operate from the United Kingdom but over 90% of our premiums and claims are settled in currencies other than sterling. Our reported financial results are denominated in sterling and are therefore affected by the exchange rate against sterling of our main currency assets (USD, EUR and CAD). The syndicate settles its surplus assets in both sterling and USD as each underwriting year closes or earlier if a solvency transfer is approved. We do not therefore seek to hedge the USD exposure. Other currencies are tracked against sterling to ensure the amount of exposure is monitored and if needed appropriate action taken.

Equity price risk

We are subject to equity price risk due to changes in the market value of equities. This risk is managed by spreading the investments of equities over a number of investment managers who each specialise in a market sector or type of investment evaluation. The performance each fund is monitored by the Investment Committee.

Interest rate risk

Interest rate risk arises primarily from the value of our investments. For example debt and fixed income securities are exposed to actual fluctuations or changes in market perception of current or future interest rates. Exposure to interest rate risk is monitored through the use of Value-at-Risk analysis, scenario testing, stress testing and duration reviews. Interest rate risk is managed by matching of assets and liabilities to within five years.

Operational risk

Operational risk is the potential adverse financial and reputational impact of inadequate or failed internal processes, people and systems or from external events. An internal risk assessment process has been developed to assess the potential impact and probability of certain events and a system of internal controls has been implemented to mitigate the risks. These controls have been monitored by Senior Management and the Board whilst their ongoing effectiveness is validated through both the ongoing risk assessment and internal audit process.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

CORPORATE GOVERNANCE

Directors and Directors' Interests

The Directors of the managing agent who served during the year ended 31 December 2006 together with their participations on the syndicate were as follows:

	2006 year of account £'000	2005 year of account £'000
J D Denoon Duncan (Chairman) ⁽¹⁾	150	125
H R Dumas	462	376
A S Foote ⁽²⁾	–	–
A G P Hobrow (resigned 28 February 2006)	–	–
A Kong ⁽¹⁾	250	125
B S McAuley ⁽¹⁾	88	50
D E S Shipley (Active Underwriter) ⁽¹⁾	2,450	2,000
R J Sumner ⁽¹⁾	75	25
R K Trubshaw ⁽¹⁾	988	800

(1) Participate via MAP Capital Limited, an unaligned corporate member.

(2) A S Foote, a non-executive director of MAP, is a managing director of Steadfast Advisors, the management company for Steadfast Capital LP, which participates on the syndicate through MAP Capital Limited.

The total capacity of the 2006 year of account of the syndicate was £399,636,058.

AGM

As permitted under the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) MAP does not propose to hold a Syndicate Annual General Meeting of the members of the syndicate. Members may object to this proposal or the intention to reappoint auditors within 21 days of the issue of these accounts. Any such objection should be addressed to B S McAuley, Compliance Director, at the registered office.

Disclosure of Information to the Auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

The managing agent intends to reappoint Ernst & Young LLP as the syndicate's auditors.

By order of the Board

D E S Shipley

Active Underwriter

Managing Agency Partners Limited

London

B S McAuley

Secretary

21 March 2007

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent; and
3. prepare the financial statements on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2004 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

to the Members of Syndicate 2791

We have audited the syndicate's annual accounts for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 24. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Managing Agent and Auditors

The managing agent is responsible for the preparation of the annual accounts in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Managing Agent's Responsibilities.

Our responsibility is to audit the annual accounts 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 annual accounts give a true and fair view and have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether, in our opinion, the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts. In addition we report to you if, in our opinion, the managing agent in respect of the syndicate 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 remuneration of directors of the managing agent and transactions is not disclosed.

We read the Report of the Directors of the Managing Agent 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 annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the syndicate'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 annual accounts 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 annual accounts.

Opinion

In our opinion:

- the annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2006 and of its profit for the year then ended;
- the annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts.

Ernst & Young LLP

Registered Auditor

London

21 March 2007

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2006

	Notes	£'000	2006 £'000	£'000	2005 £'000
Earned premiums, net of reinsurance					
Gross premiums written	3		450,059		369,110
Outward reinsurance premiums			(38,612)		(41,913)
Net premiums written			411,447		327,197
Change in the provision for unearned premiums:					
Gross amount			(22,806)		(20,242)
Reinsurers' share			4,650		3,150
Change in the net provision for unearned premiums		(18,156)		(17,092)	
Earned premiums, net of reinsurance			393,291		310,105
Allocated investment return transferred from the non-technical account					
			25,310		12,285
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	3	(217,837)		(165,803)	
Reinsurers' share		90,406		28,636	
Net claims paid		(127,431)		(137,167)	
Change in the provision for claims					
Gross amount	3	9,387		(174,500)	
Reinsurers' share		(70,571)		80,854	
Change in the net provision for claims		(61,184)		(93,646)	
Claims incurred, net of reinsurance			(188,615)		(230,813)
Acquisition expenses					
Reinsurers' commissions and profit participations		1,016		1,688	
Other expenses	5	(30,806)		(20,704)	
Net operating expenses	3		(119,165)		(92,285)
Balance on the technical account for general business					
			110,821		(708)

All operations are continuing.

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Balance on the general business technical account		110,821	(708)
Investment income	8	16,387	14,205
Unrealised gains on investments		11,647	548
Unrealised losses on investments		(642)	(1,532)
Investment expenses and charges	8	(2,082)	(936)
Allocated investment return transferred to general business technical account		(25,310)	(12,285)
Profit/(loss) for the financial year		110,821	(708)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Profit/(loss) for the financial year		110,821	(708)
Exchange difference on foreign currency translation	10	(6,558)	8,349
Prior year adjustment		–	(283,504)
Total recognised gains and losses since last annual report		104,263	(275,863)

BALANCE SHEET ASSETS

at 31 December 2006

	Notes	£'000	2006 £'000	£'000	2005 £'000
Investments					
Financial investments	11		478,534		402,978
Reinsurers' share of technical provisions					
Provision for unearned premiums		10,375		6,754	
Claims outstanding	4	40,194		120,561	
			50,569		127,315
Debtors					
Debtors arising out of direct insurance operations	12	33,521		45,259	
Debtors arising out of reinsurance operations		116,698		127,050	
Other debtors	13	8,693		20,326	
			158,912		192,635
Other assets					
Cash at bank and in hand			30,515		24,742
Other	14		18,553		16,630
Prepayments and accrued income					
Accrued interest		1,073		1,870	
Deferred acquisition costs		39,294		39,443	
Other prepayments and accrued income		1,831		384	
			42,198		41,697
Total assets			779,281		805,997

BALANCE SHEET LIABILITIES

at 31 December 2006

	Notes	£'000	2006 £'000	£'000	2005 £'000
Capital and reserves					
Members' balances	15		107,964		49,096
Technical provisions					
Provision for unearned premiums		174,302		171,560	
Claims outstanding	4	445,929		510,915	
			620,231		682,475
Creditors					
Creditors arising out of direct insurance operations	16	1,284		1,290	
Creditors arising out of reinsurance operations – due within one year		25,182		43,688	
Other creditors	17	23,493		28,936	
			49,959		73,914
Accruals and deferred income			1,127		512
Total liabilities			779,281		805,997

The financial statements on pages 37 to 51 were approved by the Board of Managing Agency Partners Limited on 13 March 2007 and were signed on its behalf by:

D E S Shipley
Active Underwriter

R J Sumner
Finance Director

21 March 2007

CASH FLOW STATEMENT

for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	18	174,366	103,207
Transfer to members in respect of underwriting participations:			
Continuous solvency transfer		–	(32,494)
Profits disbursed		(44,023)	(57,894)
Financing:			
Losses received		–	–
	19	130,343	12,819
Cash flows were invested as follows:			
Increase in cash holdings	19	8,513	6,396
Increase in deposits	19	3,679	19,625
Net portfolio investment	20	118,151	(13,202)
Net investment of cashflows		130,343	12,819

NOTES TO THE ACCOUNTS

for the year ended 31 December 2006

1. Basis of Preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP.

2. Accounting Policies

Premiums written

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of certain acquisition costs payable to intermediaries and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified. Differences between such estimates and actual amounts will be recorded in the period in which the actual amounts are determined.

Unearned gross premiums

Written premiums are recognised evenly over the term of the contract for those contracts where the incidence of risk does not vary over the term. Contracts where the incidence of risk differs over the term are earned based on the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Acquisition costs

Acquisition costs, comprising commission and other direct or indirect costs related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Reinsurance premium ceded

Outwards reinsurance purchased consists of excess of loss contracts and proportional reinsurance contracts. Initial excess of loss premiums are accounted for in the year of inception. Premiums ceded to reinstate reinsurance cover or additional premiums payable on loss are recognised when they may be assessed with reasonable certainty. Proportional outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Unearned reinsurance premium

Reinsurance premiums paid to purchase excess of loss reinsurance contracts are earned evenly over the period at risk. Proportional reinsurance premiums are earned in the same accounting period as the inwards business being reinsured.

Claims provisions and related recoveries

Claims paid comprise claims and claim handling expenses paid during the period.

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

NOTES TO THE ACCOUNTS

continued

2. Accounting Policies *continued*

Claims provisions and related recoveries continued

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of a provision for reinsurance bad debt, having regard to the reinsurance programme in place for each class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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, the 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. The methods used, and the estimates made, are reviewed regularly.

Reinsurance bad debt

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date may exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant future investment return. The provision for unexpired risks is included in technical provisions in the balance sheet.

Foreign currency translation

Transactions in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

In accordance with SSAP20, Foreign Currency Translation, assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

All exchange differences arising on retranslation of opening balances and between average and year-end rates are included in the statement of total recognised gains and losses.

The following rates of exchange have been used in the preparation of these accounts.

	2006		2005	
	Year end	Average during	Year end	Average during
USD	1.96	1.84	1.72	1.82
CAD	2.28	2.09	2.01	2.21
EUR	1.48	1.47	1.46	1.46

Investments

Listed and other quoted investments are stated at current value at the balance sheet date. For this purpose listed and quoted investments are stated at market value and deposits with credit institutions are stated at cost.

The cost of syndicate investments is deemed to be the aggregate of market value at the previous balance sheet date of those investments still held at the current balance sheet date, and purchases during the period.

NOTES TO THE ACCOUNTS

continued

2. Accounting Policies *continued*

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and market value at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year.

Allocation of investment return

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

Pension costs

MAP operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit commission

Profit commission is charged by the managing agent at a rate of 17.5%, subject to the operation of a deficit clause. This does not become payable until after the appropriate year of account closes, normally at 36 months.

3. Segmental Analysis

An analysis of the underwriting result before investment return is set out below:

2006	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expense £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Accident and health	14,479	13,882	(3,129)	(4,859)	24	5,918	13,260
Motor (third party liability)	8,119	6,758	(3,048)	(1,998)	(111)	1,601	8,483
Motor (other classes)	15,422	17,278	(10,614)	(4,341)	(164)	2,159	22,238
Marine, aviation and transport	42,259	35,985	(19,835)	(9,008)	(1,153)	5,989	49,152
Fire and other damage to property	62,968	59,562	(26,168)	(16,371)	(7,643)	9,380	52,556
Third party liability	22,410	21,575	(6,908)	(7,245)	(196)	7,226	70,705
Other	683	777	(1,375)	(198)	396	(400)	3,023
	166,340	155,817	(71,077)	(44,020)	(8,847)	31,873	219,417
Reinsurance accepted	283,719	271,436	(137,373)	(75,145)	(5,280)	53,638	350,245
	450,059	427,253	(208,450)	(119,165)	(14,127)	85,511	569,662

NOTES TO THE ACCOUNTS

continued

3. Segmental Analysis *continued*

2005	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expense £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance							
Accident and health	14,259	10,758	(7,115)	(3,893)	6	(244)	15,025
Fire and other damage to property	46,104	42,688	(40,599)	(10,926)	17,191	8,354	52,334
Marine, aviation and transport	25,277	24,880	(20,292)	(6,628)	5,900	3,860	31,588
Motor (other classes)	16,955	19,264	(13,362)	(5,961)	(186)	(245)	29,650
Third party liability	25,499	29,974	(20,803)	(9,282)	824	713	86,660
Miscellaneous	4,440	5,596	(1,839)	(1,663)	(55)	2,039	8,490
	132,534	133,160	(104,010)	(38,353)	23,680	14,477	223,747
Reinsurance	236,576	215,708	(236,293)	(53,932)	47,047	(27,470)	331,413
	369,110	348,868	(340,303)	(92,285)	70,727	(12,993)	555,160

All premiums were concluded in the UK.

	2006 £'000	2005 £'000
Commissions on gross direct premiums earned	34,384	35,163

The geographical analysis of premiums, by destination is as follows:

	2006 £'000	2005 £'000
UK	18,225	16,165
Other EU countries	29,767	26,655
US	301,627	235,347
Other	100,440	90,943
Total	450,059	369,110

Other, above, includes worldwide income of £59,331,000 (2005: £54,361,000).

4. Claims Outstanding

A negative run-off of £18.4 million on the 2005 and prior years' reserves (2004 and prior: £4.4 million) was experienced during 2006. This change to the previous years' reserves is 4.7% of the net provisions brought forward. The change in the year was due to negative contributions from our marine and reinsurance property accounts, mainly from 2005 hurricanes and positive contributions from our liability reserves.

	2006 £'000	2005 £'000
Gross outstanding claims	217,887	275,010
Reinsurance recoveries anticipated	(28,407)	(101,927)
Net outstanding claims	189,480	173,083
Provision for gross claims incurred but not reported	225,538	233,599
Reinsurance recoveries anticipated	(11,787)	(18,634)
Provision for net claims incurred but not reported	213,751	214,965
Unallocated loss and loss adjustment expenses	2,504	2,306
Net reserves	405,735	390,354

NOTES TO THE ACCOUNTS

continued

5. Net Operating Expenses

	2006 £'000	2005 £'000
Personal expenses	8,199	5,052
Profit commission payable to managing agent	16,083	8,914
Other administrative expenses	6,444	6,738
Loss on exchange	80	–
	30,806	20,704

Administrative expenses include:

	2006 £'000	2005 £'000
Auditors' remuneration		
Fees for the audit of the syndicate	167	140
Taxation compliance services	9	4
Actuarial consultancy services	147	103
Additional work on the Report and Accounts of the syndicate	3	18

Members' standard personal expenses comprise managing agent's fees, profit commission, Lloyd's subscriptions and Central fund contributions.

6. Staff Numbers and Costs

All staff are employed by the managing agency. The following amounts were recharged to the syndicate in respect of salary costs:

	2006 £'000	2005 £'000
Wages and salaries	3,012	2,780
Social security costs	336	311
Other pension costs	297	278
	3,645	3,369

The average number of employees employed by the managing agency but working for the syndicate during the year was as follows:

	2006 Number	2005 Number
Administration and finance	19	19
Underwriting	22	21
Claims	4	4
	45	44

Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

NOTES TO THE ACCOUNTS

continued

7. Emoluments of the Directors of Managing Agency Partners Ltd

The nine directors of MAP received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2006 £'000	2005 £'000
Emoluments	845	815

The active underwriter received the following remuneration charged as a syndicate expense:

	2006 £'000	2005 £'000
Emoluments	198	175

8. Investment Return

	2006 £'000	2005 £'000
Investment income		
Income from investments	12,030	12,275
Gains on the realisation of investments	4,357	1,930
	16,387	14,205
Investment expenses		
Investment management expenses, including interest	651	410
Losses on the realisation of investments	1,431	526
	2,082	936

Investment return is stated net of fees and commissions where these are not separately disclosed to us.

9. Calendar Year Investment Yield

	2006 £'000	2005 £'000
Average syndicate funds available for investment	479,396	370,110
Investment return	25,961	12,695
Analysis of calendar year investment yield by currency		
Sterling	5.0%	4.6%
United States dollars	5.7%	3.2%
Canadian dollars	3.9%	2.7%
Euros	3.4%	4.1%
Combined	5.4%	3.4%

10. Exchange Differences on Foreign Currency Translation

Exchange differences on foreign currency translation arise as follows:

	2006 £'000	2005 £'000
On 2004 balances brought forward	(294)	9,698
On transactions during 2006: from average to year end rates	(6,264)	(1,349)
	(6,558)	8,349

NOTES TO THE ACCOUNTS

continued

11. Financial Investments

	Market value		Cost	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Shares and other variable yield securities and units in unit trusts	123,015	91,428	118,518	90,805
Debt securities and other fixed income securities	280,965	262,898	280,492	264,723
Participation in investment pools	23,206	20,846	22,161	19,022
Other loans	36,434	2,546	36,416	2,546
Deposits with credit institutions	14,914	25,260	14,914	25,260
	478,534	402,978	472,501	402,356

Other loans include loans to the Lloyd's New Central Fund. These loans are repayable after closure of the relevant year of account and are subject to the Council of Lloyd's declaring them to be surplus to the Central Fund requirements at the repayment date. These are interest bearing based on a 1.3 year government bond index.

Included above are listed investments amounting to £58,577,000 (2005: £48,581,000).

12. Debtors Arising out of Direct Insurance Operations

	2006 £'000	2005 £'000
Due from policyholders	–	–
Due from intermediaries – due within one year	33,521	45,234
– due after one year	–	25
	33,521	45,259

Debtors arising out of reinsurance operations includes £29,581 (2005: £63,644) due after one year.

13. Other Debtors

	2006 £'000	2005 £'000
Due within one year		
Outstanding settlements on investments	3,833	3,346
Commissions and override receivable	420	2,354
Foreign taxes	1,450	6,301
Members' agents fees funded	850	796
Other	61	686
	6,614	13,483
Due after one year		
Foreign taxes	16	5,994
Members' agents fees funded	2,063	849
	2,079	6,843
	8,693	20,326

14. Other Assets

	2006 £'000	2005 £'000
Overseas deposits	18,553	16,630

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

NOTES TO THE ACCOUNTS

continued

15. Reconciliation of Members' Balances

	2006 £'000	2005 £'000
Members' balances brought forward at 1 January as previously stated	49,096	417,115
Prior year adjustment	–	(283,504)
Members' balances restated at 1 January	49,096	133,611
Profit/(loss) for the financial year	110,821	(708)
Exchange rate difference – members' balances	(6,558)	8,349
– continuous solvency transfers	90	(1,768)
Reclassification of members' agents fees	(1,462)	–
Continuous solvency transfers	–	(32,494)
(Payments of profit to)/collection of losses from members' personal reserve funds	(44,023)	(57,894)
Members' balances carried forward at 31 December	107,964	49,096

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

16. Creditors Arising Out of Direct Insurance Operations

	2006 £'000	2005 £'000
Arising out of direct insurance operations		
Policyholders	–	–
Intermediaries – due within one year	1,284	1,290
	1,284	1,290

17. Other Creditors

	2006 £'000	2005 £'000
Outstanding settlement on investments	–	3,288
Profit commissions	23,452	25,622
Other	41	26
	23,493	28,936

Of the profit commission above, £14,036,000 (2005: £9,038,000) falls due after one year.

18. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2006 £'000	2005 £'000
Operating profit on ordinary activities	110,821	(708)
Realised and unrealised investments (gains)/losses	47,090	(39,703)
Decrease in net technical provisions	14,503	155,316
Decrease/(increase) in debtors	33,223	(42,027)
(Decrease)/increase in creditors	(23,341)	23,748
Exchange differences on foreign currency translation	(5,746)	6,581
Movement on members' balances	(2,184)	–
Net cash inflow from operating activities	174,366	103,207

NOTES TO THE ACCOUNTS

continued

19. Movement in Opening and Closing Portfolio Investments Net of Financing

	2006 £'000	2005 £'000
Net cash inflow from the year	8,513	6,396
Cash flow – portfolio investments	121,830	6,423
Movement arising from cash flows	130,343	12,819
Changes in market value and exchange rates	(47,090)	39,703
Total movement in portfolio investments	83,253	52,522
Portfolio at 1 January	444,350	391,828
Portfolio at 31 December	527,603	444,350

20. Movement in Cash, Portfolio Investments and Financing

	At 1 January 2006 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2006 £'000
Cash at bank and in hand	24,742	8,513	(2,740)	30,515
Overseas deposits	16,630	3,679	(1,756)	18,553
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	91,428	31,050	537	123,015
Debt securities and other fixed income securities	262,898	57,335	(39,268)	280,965
Participation in investment pools	20,846	3,149	(789)	23,206
Other loans	2,546	33,870	19	36,435
Deposits with credit institutions	25,260	(7,253)	(3,093)	14,914
Total portfolio investments	402,978	118,151	(42,594)	478,534
Total cash, portfolio investments and financing	444,350	130,343	(47,090)	527,603

Other loans include loans to the Lloyd's New Central Fund.

21. Net Cash Inflow/(Outflow) on Portfolio Investments

	2006 £'000	2005 £'000
Purchase of shares and other variable yield securities	(59,960)	(22,112)
Purchase of debt securities and other fixed income securities	(1,898,791)	(1,419,197)
Purchase of participation in investment pools	(11,330)	(15,271)
Deposits with credit institutions	7,253	(15,271)
Other loans	(33,870)	2,546
Sale of shares and other variable yield securities	28,910	10,016
Sale of debt securities and other fixed income securities	1,841,456	1,459,766
Sale of participation in investment pools	8,181	–
Net cash (outflow) on portfolio investments	(118,151)	(4,615)

NOTES TO THE ACCOUNTS

continued

22. Related Parties

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agency and syndicate.

The executives' interests in the ordinary share capital of MAP Equity Limited, which has a share capital of £250,000, during 2006 were as follows:

	A Shares (voting)	B Shares (non-voting)
D E S Shipley	30,000	–
R K Trubshaw	26,250	–
A Kong	18,750	–
J D Denoon Duncan	–	8,333
B S McAuley	–	12,500
R J Sumner	–	8,334

Messrs Shipley, Denoon Duncan, Kong, Trubshaw, Sumner and Ms McAuley participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited. MAP Capital Limited commenced underwriting on the 2001 year of account. For the 2006 year of account MAP Capital Limited provided £120,375,500 of capacity on Syndicate 2791 (2005: £108,437,500) representing 30.1% of capacity (2005: 33.3%). MAP has no direct or indirect interest in the share capital of MAP Capital Limited.

Certain executives hold ordinary shares in a number of listed companies that transact business with the syndicate. The aggregate of these holdings does not exceed 1% of the issued ordinary share capital of these companies.

Certain functions in relation to administration and systems had been sub-contracted to companies related to Omni Bridgeway BV which has a 9.9% interest in the shares of the intermediate parent company, Managing Agency Partners Holdings Limited. These arrangements are on an arms length basis. The charges for these services in 2006 totalled £468,000 (2005: £877,000).

There are no other transactions or arrangements requiring disclosure.

23. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settled losses.

24. Contingent Liabilities

Litigation

In the course of conducting insurance business, the syndicate receives claims in respect of its underwriting activities and becomes involved in actual or threatened litigation arising therefrom including actions in respect of subrogation, asset recovery or coverage disputes. Prudent estimates of costs arising in the defence of all these claims have been made in these accounts. The board of the managing agent considers each action carefully and appropriate provisions are made accordingly. There are no such provisions required at the year end.

Letters of credit

The syndicate has provided letters of credit to certain insureds and reinsureds to cover losses that might arise on their contracts written in the ordinary course of business. These amount to US\$16.9 million; the letters of credit are fully collateralised with cash deposits held by Citibank, on the syndicate's account, of US\$17.1 million.



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