

BREVAN HOWARD

Brevan Howard Master Fund Limited
Annual Audited Consolidated Financial
Statements 2010

ANNUAL AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
31 December 2010

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Independent Auditors' Report to the Shareholders of Brevan Howard Master Fund Limited

We have audited the accompanying consolidated financial statements of Brevan Howard Master Fund Limited (the "Master Fund"), which comprise the consolidated statement of assets and liabilities and consolidated condensed schedule of investments as at 31 December 2010, the consolidated statements of operations, changes in net assets and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the Master Fund's shareholders, as a body. Our audit work has been undertaken so that we might state to the Master Fund's shareholders 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 Master Fund and the Master Fund's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Master Fund as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG

Century Yard, Cricket Square
Grand Cayman
Cayman Islands

24 March 2011

Consolidated Statement of Assets and Liabilities

31 December 2010

	2010 US\$ '000
Assets	
Investments at market value (cost: US\$41,487,503) (Notes 3, 5)	53,526,220
Cash (Note 2)	25,411
Investments purchased under agreements to resell (cost: US\$19,276,414) (Note 7)	19,046,960
Dividends and interest receivable	168,731
Due from broker (Note 2)	2,434,592
Other assets	263
Long - term interest-bearing subscriptions receivable (Note 13)	135,955
Equalization factor (Note 15)	28
Total assets	75,338,160
Liabilities	
Investments sold short at market value (proceeds: US\$15,590,489) (Note 3)	25,053,914
Investments sold under agreements to repurchase (proceeds: US\$20,371,599) (Note 7)	20,227,123
Accounts payable and accrued expenses (Notes 4, 5, 6)	5,686
Dividends and interest payable	194,940
Subscriptions in advance	20,093
Redemptions payable	499,050
Due to broker (Note 2)	4,870,454
Performance fee payable (Note 5)	21,164
Total liabilities	50,892,424
Non-controlling interest	256,913
Net assets (Notes 8, 12)	24,188,823
Net Asset Value per share	
US Dollar Class A	US\$3,672.46
US Dollar L.P. Class A	US\$3,299.84
Euro Class A	€3,596.26
Sterling Class A	£3,997.32
Yen Class A	¥ 11,913.45
Australian Dollar Class A	AUD 1,088.17
Brazilian Real Class A	BRL 1,126.48
Canadian Dollar Class A	CAD 1,042.33
Norwegian Krone Class A	NOK 1,060.51
Singapore Dollar Class A	SGD 1,009.18
Swiss Franc Class A	CHF 986.67
US Dollar Class B	US\$2,069.75
Euro Class B	€2,080.67
Sterling Class B	£2,150.51
US Dollar Class Y	US\$125.38
Euro Class Y	€120.90
Sterling Class Y	£121.33
US Dollar Class Z	US\$103.58
Euro Class Z	€103.66
Sterling Class Z	£103.69
Yen Class Z	¥ 10,260.13

See accompanying notes to the Consolidated Financial Statements.

Signed on behalf of the Board by:

Karla Bodden
Director

24 March 2011

Consolidated Condensed Schedule of Investments

31 December 2010

Cost is presented in US\$ '000	Market Value US\$ '000	% of Net Assets
Long Portfolio		
Equities		
Bermuda (cost 20,363)		
Consumer, Non-Cyclical	6,644	0.03
Energy	24,601	0.10
	31,245	0.13
Canada (cost 35,410)		
Basic Materials	18,373	0.08
Energy	20,143	0.08
	38,516	0.16
Cayman Islands (cost 3,014)		
Consumer, Non-Cyclical	3,025	0.01
China (cost 3,053)		
Energy	3,010	0.01
Cyprus (cost 138)		
Energy	–	0.00
Finland (cost 6,945)		
Communications	6,674	0.03
France (cost 42,811)		
Consumer, Cyclical	7,917	0.03
Consumer, Non-Cyclical	6,891	0.03
Energy	4,726	0.02
Industrial	24,520	0.10
	44,054	0.18
Germany (cost 63,804)		
Consumer, Cyclical	11,775	0.05
Consumer, Non-Cyclical	31,261	0.12
Financial	3,989	0.02
Industrial	18,722	0.08
Technology	1,692	0.01
	67,439	0.28
Guernsey (cost 3,098)		
Financial	6,715	0.03
Hong Kong (cost 11,467)		
Financial	9,129	0.04
Industrial	3,014	0.01
	12,143	0.05
Israel (cost 1,122)		
Basic Materials	1,232	0.01

Consolidated Condensed Schedule of Investments continued

31 December 2010

	Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)		
Equities (continued)		
Italy (cost 28,835)		
Communications	2,265	0.01
Consumer, Cyclical	19,373	0.08
Financial	10,130	0.04
Industrial	193	0.00
	31,961	0.13
Malaysia (cost 9,771)		
Basic Materials	9,874	0.04
Netherlands (cost 24,414)		
Communications	13,131	0.05
Financial	8,661	0.04
Industrial	1,154	0.00
	22,946	0.09
Norway (cost 15,056)		
Consumer, Non-Cyclical	5,680	0.02
Energy	3,545	0.01
Financial	8,540	0.04
	17,765	0.07
Sweden (cost 16,820)		
Consumer, Cyclical	15,759	0.07
Industrial	3,800	0.01
	19,559	0.08
Switzerland (cost 56,681)		
Consumer, Cyclical	3,045	0.01
Consumer, Non-Cyclical	31,473	0.13
Financial	9,882	0.04
Funds	5,691	0.02
Industrial	9,700	0.05
	59,791	0.25
United Kingdom (cost 7,035)		
Financial	4,975	0.02
United States (cost 424,680)		
Basic Materials	11,409	0.05
Communications	28,262	0.12
Consumer, Cyclical	185	0.00
Consumer, Non-Cyclical	45,225	0.19
Energy	45,413	0.19
Financial	40,687	0.17
Funds	167,599	0.69

	Market Value US\$ '000	% of Net Assets	
Long Portfolio (continued)			
Equities (continued)			
United States (cost 424,680) (continued)			
Industrial	79,879	0.33	
Technology	43,226	0.18	
Utilities	9,200	0.03	
	471,085	1.95	
Total Equities (cost 774,517)			
	852,009	3.52	
Fixed Income Securities			
Argentina (cost 7,684)			
Government	7,832	0.03	
Australia (cost 4,918)			
Bank Loans	5,284	0.02	
Bermuda (cost 9,550)			
Asset Backed Securities	16	0.00	
Energy	9,816	0.04	
	9,832	0.04	
Brazil (cost 10,829)			
Financial	2,535	0.01	
Government	7,924	0.03	
	10,459	0.04	
Canada (cost 15,492)			
Basic Materials	8,620	0.04	
Energy	13,774	0.05	
	22,394	0.09	
Cayman Islands (cost 176,142)			
Asset Backed Securities	148,844	0.62	
Energy	13,603	0.06	
Financial	15,175	0.06	
Mortgage Backed Securities	3,431	0.01	
	181,053	0.75	
Channel Islands (cost 2,727)			
Mortgage Backed Securities	7,634	0.03	
France (cost 739,379)			
Government	784,835	3.24	
Germany (cost 1,729,423)			
Government			
300,000	BUBI 0.0% 01/26/2011	398,426	1.65
748,500	BUBI 0.0% 03/30/2011	993,427	4.11
250,000	BUBI 0.0% 06/29/2011	331,298	1.37
2,890	DBR 3.0% 07/04/2020	3,856	0.02
		1,727,007	7.15

Consolidated Condensed Schedule of Investments continued

31 December 2010

	Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)		
Fixed Income Securities (continued)		
Indonesia (cost 2,373)		
Government	2,333	0.01
Ireland (cost 24,930)		
Financial	2,623	0.01
Mortgage Backed Securities	22,967	0.10
	25,590	0.11
Israel (cost 158,192)		
Financial	153,961	0.64
Government	8,407	0.03
	162,368	0.67
Japan (cost 4,657,475)		
Financial	47	0.00
Government		
50,000,000 JTDB 0.0% 04/20/2011	611,351	2.53
50,000,000 JTDB 0.0% 05/20/2011	611,290	2.53
100,000,000 JTDB 0.0% 07/20/2011	1,222,285	5.05
150,000,000 JTDB 0.0% 09/20/2011	1,833,007	7.57
50,000,000 JTDB 0.0% 11/21/2011	609,015	2.52
	4,886,995	20.20
Jersey (cost 5,877)		
Asset Backed Securities	2,445	0.01
Energy	5,372	0.03
Financial	3,150	0.01
	10,967	0.05
Kazakhstan (cost 2,816)		
Financial	3,384	0.01
Luxembourg (cost 17,865)		
Communications	9,203	0.04
Financial	3,619	0.01
Mortgage Backed Securities	5,174	0.02
	17,996	0.07
Mexico (cost 5,899)		
Government	5,942	0.02
Netherlands (cost 4,487)		
Energy	1,007	0.01
Mortgage Backed Securities	1,207	0.01
Utilities	2,288	0.01
	4,502	0.03
Peru (cost 2,421)		
Government	2,327	0.01

	Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)		
Fixed Income Securities (continued)		
Phillipines (cost 4,374)		
Government	4,284	0.02
Russia (cost 3,018)		
Government	3,003	0.01
South Africa (cost 2,994)		
Government	2,929	0.01
Spain (cost 18,969)		
Financial	20,490	0.08
Turkey (cost 4,780)		
Government	4,646	0.02
Ukraine (cost 978)		
Government	1,019	0.01
United Kingdom (cost 4,553,505)		
Asset Backed Securities	22,732	0.09
Basic Materials	16,421	0.07
Consumer, Non-Cyclical	23,298	0.10
Government		
348,000 UKTB 0.0% 05/03/2011	535,204	2.21
235,000 UKTB 0.0% 05/09/2011	360,946	1.49
217,000 UKT 4.5% 03/07/2019	333,206	1.38
1,092,425 UKT 3.8% 09/07/2019	1,825,804	7.55
100,000 UKT 3.8% 09/07/2020	157,730	0.65
503,746 UKT 4.5% 09/07/2034	784,865	3.24
50,000 UKT 4.3% 09/07/2039	77,611	0.32
Mortgage Backed Securities	361,739	1.50
	4,499,556	18.60
United States (cost 20,594,093)		
Asset Backed Securities	537,585	2.22
Bank Loans	22,284	0.09
Basic Materials	49,319	0.20
Communications	19,717	0.08
Consumer, Cyclical	128,695	0.53
Consumer, Non-Cyclical	23,793	0.10
Energy	31,000	0.13
Financial	617,969	2.55
Government		
500,000 B 0.0% 01/13/2011	499,997	2.07
300,000 B 0.0% 02/10/2011	299,975	1.24
2,000,000 B 0.0% 03/10/2011	1,999,617	8.27
1,000,000 B 0.0% 04/07/2011	999,697	4.13
500,000 B 0.0% 05/05/2011	499,766	2.07
500,000 B 0.0% 06/02/2011	499,687	2.07

Consolidated Condensed Schedule of Investments continued

31 December 2010

		Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)			
Fixed Income Securities (continued)			
United States (cost 20,594,093) (continued)			
700,000	B 0.0% 06/30/2011	699,340	2.89
500,000	B 0.0% 08/25/2011	499,368	2.06
1,500,000	B 0.0% 10/20/2011	1,497,162	6.19
250,000	SP 0.0% 08/15/2020	178,294	0.74
58,965	T 1.0% 04/30/2012	59,407	0.25
322,453	T 1.4% 11/30/2015	312,326	1.29
234,000	T 1.9% 10/31/2017	221,532	0.92
109,500	T 11.3% 02/15/2015	151,469	0.63
45,107	T 2.1% 05/31/2015	45,692	0.19
495,000	T 2.3% 01/31/2015	506,756	2.10
15,379	T 2.4% 07/31/2017	15,120	0.06
52,365	T 2.6% 07/31/2014	54,639	0.22
75,000	T 2.6% 11/15/2020	70,207	0.29
780	T 2.8% 05/31/2017	787	0.00
2,500,000	T 2.8% 12/31/2017	2,494,531	10.31
942,800	T 3.1% 01/31/2017	976,387	4.04
100,000	T 3.5% 02/15/2039	84,656	0.35
256,836	T 3.5% 05/15/2020	261,290	1.08
183,213	T 3.6% 02/15/2020	188,824	0.78
4,409	T 3.9% 08/15/2040	3,990	0.02
72,215	T 4.3% 11/15/2040	69,823	0.29
39,521	T 4.6% 02/15/2040	40,706	0.17
105,450	T 6.3% 08/15/2023	131,351	0.54
28,250	T 7.1% 02/15/2023	37,639	0.16
116,650	T 7.3% 08/15/2022	156,457	0.65
222,250	T 7.5% 11/15/2016	284,758	1.18
644,800	T 8.0% 11/15/2021	905,440	3.74
114,655	T 8.1% 05/15/2021	161,681	0.67
526,300	T 8.1% 08/15/2019	729,337	3.02
700,500	T 8.1% 08/15/2021	990,879	4.10
443,700	T 8.8% 08/15/2020	644,405	2.66
55,000	T 8.9% 08/15/2017	76,158	0.31
128,900	T 9.3% 02/15/2016	174,116	0.72
67,261	TII 0.6% 04/15/2013	71,720	0.30
122,709	TII 2.0% 04/15/2012	137,159	0.57
250,000	TII 2.0% 07/15/2014	313,196	1.29
108,823	TII 2.4% 04/15/2011	121,038	0.50
120	TII 2.5% 07/15/2016	145	0.00
16,405	TII 3.0% 07/15/2012	21,206	0.09
108,765	TII 3.5% 01/15/2011	136,917	0.56
Industrial		6,311	0.03
Mortgage Backed Securities		978,024	4.04
Technology		8,269	0.03
		20,747,613	85.78

	Market Value US\$ '000	% of Net Assets	
Long Portfolio (continued)			
Fixed Income Securities (continued)			
Venezuela (cost 40,696)			
Energy	42,083	0.18	
Virgin Islands, British (cost 1,495)			
Financial	1,488	0.01	
Total Fixed Income Securities (cost 32,803,381)	33,205,845	137.29	
Private Placements			
Cyprus (cost 43,468)			
Property	36,364	0.15	
Germany (cost 26,085)			
Funds	26,269	0.11	
Israel (cost 2,500)			
Technology	–	0.00	
Italy (cost 4,415)			
Financial	–	0.00	
United Kingdom (cost 65)			
Funds	63	0.00	
United States (cost 25,128)			
Communications	4,240	0.02	
Financial	12,787	0.05	
Funds	3,555	0.01	
	20,582	0.08	
Total Private Placements (cost 101,661)	83,278	0.34	
Interest Rate Guarantee Options (cost 1,332,564)			
AUD	termination dates through December 2017	5,055	0.02
EUR	termination dates through December 2049	901,605	3.73
GBP	termination dates through January 2040	312,295	1.29
HKD	termination dates through May 2012	5,180	0.02
KRW	termination dates through August 2012	818	0.01
USD	termination dates through October 2036	775,166	3.20
		2,000,119	8.27
Forward Rate Agreements			
EUR	termination dates through December 2011	75,792	0.31
HUF	termination dates through August 2011	1,832	0.01
SEK	termination dates through March 2013	5,546	0.02
USD	termination dates through September 2011	3,910	0.02
		87,080	0.36

Consolidated Condensed Schedule of Investments continued

31 December 2010

		Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)			
<i>Cross Currency Swaps</i>			
CAD	termination dates through March 2012	3,618	0.01
SEK	termination dates through October 2014	52,541	0.22
TRY	termination dates through July 2012	96,192	0.40
USD	termination dates through July 2017	98,305	0.41
		250,656	1.04
<i>Interest Rate Swaps</i>			
AED	termination dates through December 2012	5	0.00
AUD	termination dates through December 2017	10,154	0.04
BRL	termination dates through January 2012	68,232	0.28
CAD	termination dates through August 2035	11,023	0.05
CHF	termination dates through September 2036	106,811	0.44
CLP	termination dates through October 2012	152	0.00
CZK	termination dates through August 2020	1,077	0.00
EUR	termination dates through December 2051	1,969,413	8.14
GBP	termination dates through December 2077	555,377	2.30
HKD	termination dates through November 2020	27,788	0.12
HUF	termination dates through December 2020	10,528	0.04
ILS	termination dates through November 2020	13,192	0.06
INR	termination dates through December 2020	187	0.00
JPY	termination dates through September 2035	173,401	0.72
KRW	termination dates through November 2020	11,575	0.05
MXN	termination dates through November 2015	2,335	0.01
MYR	termination dates through October 2014	232	0.00
NZD	termination dates through December 2017	118	0.00
PLN	termination dates through December 2020	5,163	0.02
RUB	termination dates through December 2012	4,047	0.02
SEK	termination dates through October 2020	1,967	0.01
SGD	termination dates through October 2020	832	0.00
THB	termination dates through August 2012	267	0.00
TWD	termination dates through October 2020	305	0.00
USD	termination dates through December 2060	2,194,782	9.07
ZAR	termination dates through November 2015	502	0.00
		5,169,465	21.37
<i>Credit Default Swaps (cost 761,540)</i>			
EUR	termination dates through December 2020	76,390	0.32
USD	termination dates through October 2052	694,437	2.87
		770,827	3.19
<i>Swaptions (cost 1,738,220)</i>			
CAD	termination dates through August 2011	55	0.00
EUR	termination dates through June 2035	555,464	2.29
GBP	termination dates through October 2037	1,177,441	4.87
HKD	termination dates through November 2012	442	0.00
JPY	termination dates through September 2012	15,760	0.07
KRW	termination dates through November 2011	217	0.00
SGD	termination dates through November 2011	519	0.00
USD	termination dates through October 2052	1,615,876	6.68
		3,365,774	13.91

		Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)			
FX Contracts			
BRL/USD	termination dates through October 2011	233,186	0.96
CHF/USD	termination dates through July 2018	359,256	1.49
EUR/BRL	termination dates through February 2012	332,814	1.38
EUR/CHF	termination dates through August 2017	368,071	1.52
EUR/USD	termination dates through June 2027	224,140	0.93
JPY/USD	termination dates through April 2013	363,736	1.50
Other	termination dates through October 2012	832,534	3.44
		2,713,737	11.22
Exchange Traded Futures			
Copper	termination dates through December 2015	13,361	0.06
Euribor 3 month	termination dates through June 2012	80,499	0.33
Eurodollar	termination dates through September 2020	32,038	0.13
US Treasury Note	termination dates through May 2011	18,219	0.08
WTI Crude Oil	termination dates through November 2017	51,536	0.21
Other	termination dates through July 2013	39,268	0.16
		234,921	0.97
Exchange Traded Options (cost 441,064)			
Euribor 3 month	termination dates through September 2011	130,559	0.54
Eurodollar	termination dates through March 2012	290,039	1.20
Sterling 3 month	termination dates through June 2012	150,675	0.63
US Treasury Note	termination dates through February 2011	39,254	0.16
Other	termination dates through January 2011	3,293	0.01
		613,820	2.54
Commodity Options (cost 594,409)			
Gold	termination dates through November 2011	63,105	0.26
Natural Gas	termination dates through May 2016	20,863	0.09
WTI Crude Oil	termination dates through November 2017	436,570	1.80
Other	termination dates through December 2011	42,424	0.18
		562,962	2.33
Equity Options (cost 267,547)			
CBOE	termination dates through February 2011	137,200	0.56
DJ Euro Stoxx 50e	termination dates through December 2011	30,732	0.13
KOSPI 200	termination dates through March 2011	42,820	0.18
S&P 500	termination dates through September 2015	29,343	0.12
SPDR	termination dates through March 2011	32,350	0.13
Other	termination dates through December 2011	30,766	0.13
		303,211	1.25

Consolidated Condensed Schedule of Investments continued

31 December 2010

	Market Value US\$ '000	% of Net Assets
Long Portfolio (continued)		
FX Options (cost 1,518,838)		
AUD/USD	106,819	0.44
EUR/AUD	37,536	0.16
EUR/BRL	118,001	0.49
EUR/BSK	69,703	0.29
EUR/CAD	18,250	0.08
EUR/CHF	47,256	0.20
EUR/GBP	32,410	0.13
EUR/JPY	29,038	0.12
EUR/PLN	15,618	0.07
EUR/SEK	33,582	0.14
EUR/USD	170,364	0.70
GBP/CHF	14,899	0.06
USD/BRL	68,840	0.28
USD/BSK	171,489	0.71
USD/CAD	21,228	0.09
USD/CHF	245,685	1.02
USD/CNY	64,981	0.27
USD/INR	16,448	0.07
USD/JPY	29,568	0.12
USD/KRW	22,552	0.09
USD/SGD	19,651	0.08
XAL/USD	41,457	0.17
XAU/USD	33,964	0.14
XCU/USD	203,791	0.84
Other	107,494	0.44
	1,740,624	7.20
Equity Swaps	44,742	0.18
Investments in Affiliated Funds (cost 1,104,928)		
Brevan Howard Commodities Strategies Master Fund Limited	215,666	0.89
Brevan Howard Investment Fund - Emerging Markets Local Fixed Income Fund	105,063	0.44
Brevan Howard Emerging Market Strategies Fund L.P.	505,995	2.09
Brevan Howard Credit Catalysts Master Fund Limited	436,184	1.80
Brevan Howard Strategic Opportunities Fund Limited	116,353	0.48
Brevan Howard Investment Fund - Absolute Return Bond Plus Fund	99,472	0.41
	1,478,733	6.11
Investments in Other Funds (cost 48,834)	48,417	0.20
Total Investments at Market Value (cost 41,487,503)	53,526,220	221.29

Proceeds are presented in US\$ '000	Market Value US\$ '000	% of Net Assets
Short Portfolio		
Equities		
Austria (proceeds (1,929))		
Financial	(2,462)	(0.01)
Canada (proceeds (5,039))		
Financial	(5,177)	(0.02)
France (proceeds (17,379))		
Diversified	(8,552)	(0.04)
Financial	(9,556)	(0.04)
	(18,108)	(0.08)
Germany (proceeds (53,889))		
Consumer, Cyclical	(6,961)	(0.03)
Consumer, Non-Cyclical	(22,597)	(0.09)
Financial	(16,355)	(0.07)
Industrial	(3,089)	(0.01)
Technology	(4,299)	(0.02)
	(53,301)	(0.22)
Italy (proceeds (48,408))		
Consumer, Cyclical	(17,618)	(0.07)
Energy	(3,366)	(0.01)
Financial	(24,155)	(0.10)
Industrial	(1,939)	(0.01)
	(47,078)	(0.19)
Japan (proceeds (2,790))		
Consumer, Cyclical	(3,170)	(0.01)
Luxembourg (proceeds (10,781))		
Basic Materials	(11,320)	(0.05)
Norway (proceeds (3,974))		
Consumer, Non-Cyclical	(3,556)	(0.01)
Energy	(1,677)	(0.01)
	(5,233)	(0.02)
Panama (proceeds (993))		
Consumer, Cyclical	(1,270)	(0.01)
Sweden (proceeds (20,444))		
Communications	(1,268)	(0.01)
Consumer, Cyclical	(9,267)	(0.04)
Industrial	(14,675)	(0.06)
	(25,210)	(0.11)

Consolidated Condensed Schedule of Investments continued

31 December 2010

	Market Value US\$ '000	% of Net Assets
Short Portfolio (continued)		
Equities (continued)		
Switzerland (proceeds (5,102))		
Consumer, Non-Cyclical	(6,539)	(0.03)
United States (proceeds (51,750))		
Communications	(9,219)	(0.04)
Consumer, Cyclical	(8,223)	(0.03)
Financial	(2,944)	(0.01)
Funds	(20,483)	(0.08)
Industrial	(15,576)	(0.06)
Technology	(1,236)	(0.01)
	(57,681)	(0.23)
Total Equities (proceeds (222,478))		
	(236,549)	(0.98)
Fixed Income Securities		
France (proceeds (4,069,499))		
Government		
(5,750) FRTR 1.6% 07/25/2011	(8,706)	(0.04)
(200,000) BTNS 3.8% 01/12/2013	(279,944)	(1.15)
(350,000) BTNS 4.5% 07/12/2013	(502,455)	(2.07)
(587,000) FRTR 3.8% 10/25/2019	(810,294)	(3.35)
(860,000) FRTR 3.5% 04/25/2020	(1,159,957)	(4.80)
(862,000) FRTR 3.8% 04/25/2021	(1,179,714)	(4.88)
	(3,941,070)	(16.29)
Germany (proceeds (3,922,134))		
Government		
(300,000) DBR 4.5% 01/04/2013	(427,289)	(1.77)
(500,000) DBR 3.8% 07/04/2013	(708,960)	(2.93)
(700,000) DBR 3.8% 01/04/2015	(1,006,304)	(4.17)
(750,000) DBR 3.3% 07/04/2015	(1,059,156)	(4.38)
(200,000) DBR 4.0% 07/04/2016	(291,367)	(1.20)
(190,000) DBR 4.8% 07/04/2040	(312,268)	(1.29)
	(3,805,344)	(15.74)
United Kingdom (proceeds (1,131,048))		
Government	(1,081,983)	(4.47)
United States (proceeds (2,003,402))		
Government		
(82,575) T 1.1% 06/30/2011	(82,975)	(0.34)
(40,370) T 1.0% 09/30/2011	(40,591)	(0.17)
(15,749) T 4.5% 04/30/2012	(16,617)	(0.07)
(43,928) T 0.8% 05/31/2012	(44,106)	(0.18)
(67,785) T 3.5% 05/31/2013	(72,191)	(0.30)
(60,000) T 2.5% 04/30/2015	(61,856)	(0.26)
(54,620) T 1.3% 09/30/2015	(52,837)	(0.22)
(126,838) T 1.3% 10/31/2015	(122,359)	(0.51)

		Market Value US\$ '000	% of Net Assets
Short Portfolio (continued)			
Fixed Income Securities (continued)			
United States (proceeds (2,003,402)) (continued)			
Government (continued)			
	(120) TII 2.5% 07/15/2016	(145)	(0.00)
	(36,315) T 1.9% 09/30/2017	(34,443)	(0.14)
	(240,675) T 1.9% 10/31/2017	(227,852)	(0.94)
	(95,097) T 3.9% 05/15/2018	(101,842)	(0.42)
	(39,959) T 2.8% 02/15/2019	(39,197)	(0.16)
	(69,572) T 3.1% 05/15/2019	(69,866)	(0.28)
	(192) T 3.4% 11/15/2019	(194)	(0.00)
	(868,225) T 2.6% 08/15/2020	(816,946)	(3.38)
	(150,233) T 2.6% 11/15/2020	(140,632)	(0.58)
	(13,600) T 4.4% 05/15/2040	(13,430)	(0.06)
Mortgage Backed Securities		(6,308)	(0.03)
		(1,944,387)	(8.04)
Total Fixed Income Securities (proceeds (11,126,083))		(10,772,784)	(44.54)
Interest Rate Guarantee Options (proceeds (474,315))			
CHF	termination dates through March 2011	(9,317)	(0.04)
EUR	termination dates through June 2030	(180,381)	(0.74)
GBP	termination dates through June 2030	(186,358)	(0.77)
KRW	termination dates through January 2011	(660)	(0.00)
USD	termination dates through September 2028	(298,944)	(1.24)
		(675,660)	(2.79)
Forward Rate Agreements			
EUR	termination dates through March 2012	(86,283)	(0.36)
GBP	termination dates through June 2011	(804)	(0.00)
HUF	termination dates through June 2011	(91)	(0.00)
ILS	termination dates through June 2011	(38)	(0.00)
RUB	termination dates through August 2011	(107)	(0.00)
SEK	termination dates through March 2013	(5,606)	(0.02)
USD	termination dates through December 2011	(2,415)	(0.01)
		(95,344)	(0.39)
Cross Currency Swaps			
SEK	termination dates through June 2011	(965)	(0.01)
TRY	termination dates through July 2017	(111,346)	(0.46)
USD	termination dates through October 2014	(140,859)	(0.58)
		(253,170)	(1.05)
Interest Rate Swaps			
AED	termination dates through December 2011	(20,799)	(0.09)
AUD	termination dates through June 2017	(9,064)	(0.04)
BRL	termination dates through January 2013	(59,892)	(0.25)
CAD	termination dates through October 2039	(11,599)	(0.05)
CHF	termination dates through March 2025	(48,369)	(0.20)
CLP	termination dates through July 2012	(20)	(0.00)

Consolidated Condensed Schedule of Investments continued

31 December 2010

		Market Value US\$ '000	% of Net Assets
Short Portfolio (continued)			
Interest Rate Swaps (continued)			
CZK	termination dates through September 2020	(1,101)	(0.00)
EUR	termination dates through December 2060	(1,761,657)	(7.28)
GBP	termination dates through December 2058	(609,349)	(2.52)
HKD	termination dates through November 2020	(16,117)	(0.07)
HUF	termination dates through September 2012	(20,552)	(0.09)
ILS	termination dates through December 2020	(90)	(0.00)
JPY	termination dates through March 2040	(147,736)	(0.61)
KRW	termination dates through November 2020	(2,054)	(0.01)
MXN	termination dates through October 2015	(23,389)	(0.10)
MYR	termination dates through September 2016	(504)	(0.00)
NZD	termination dates through December 2017	(1,473)	(0.01)
PLN	termination dates through June 2013	(5,260)	(0.02)
SEK	termination dates through October 2017	(2,314)	(0.01)
SGD	termination dates through October 2020	(785)	(0.00)
THB	termination dates through September 2016	(1,134)	(0.00)
TWD	termination dates through November 2020	(27)	(0.00)
USD	termination dates through December 2067	(2,468,403)	(10.20)
ZAR	termination dates through December 2015	(45)	(0.00)
		(5,211,733)	(21.55)
Credit Default Swaps (proceeds (654,486))			
EUR	termination dates through December 2015	(125,693)	(0.52)
USD	termination dates through October 2052	(536,493)	(2.22)
		(662,186)	(2.74)
Swaptions (proceeds (935,335))			
EUR	termination dates through June 2035	(364,822)	(1.51)
GBP	termination dates through June 2030	(104,950)	(0.43)
JPY	termination dates through September 2012	(9,592)	(0.04)
USD	termination dates through October 2020	(1,211,950)	(5.01)
		(1,691,314)	(6.99)
FX Contracts			
BRL/USD	termination dates through September 2011	(206,700)	(0.86)
CHF/USD	termination dates through July 2018	(349,902)	(1.45)
EUR/BRL	termination dates through February 2012	(339,265)	(1.40)
EUR/CHF	termination dates through August 2017	(348,923)	(1.44)
EUR/USD	termination dates through June 2027	(297,399)	(1.23)
JPY/USD	termination dates through April 2013	(549,684)	(2.27)
Other	termination dates through October 2012	(769,623)	(3.18)
		(2,861,496)	(11.83)
Exchange Traded Futures			
Euribor 3 month	termination dates through September 2012	(22,111)	(0.09)
Eurodollar	termination dates through December 2019	(79,797)	(0.33)
Sterling	termination dates through December 2012	(17,846)	(0.08)
WTI Crude Oil	termination dates through November 2018	(26,220)	(0.11)
Other	termination dates through December 2014	(15,553)	(0.06)
		(161,527)	(0.67)

		Market Value US\$ '000	% of Net Assets
Short Portfolio (continued)			
Exchange Traded Options (proceeds (418,420))			
Euribor 3 month	termination dates through September 2011	(112,686)	(0.47)
Eurodollar	termination dates through March 2012	(290,608)	(1.20)
Sterling 3 month	termination dates through June 2012	(140,667)	(0.58)
US Treasury Note	termination dates through October 2011	(41,024)	(0.17)
Other	termination dates through January 2011	(2,345)	(0.01)
		(587,330)	(2.43)
Commodity Options (proceeds (521,907))			
Gold	termination dates through November 2011	(21,000)	(0.09)
WTI Crude Oil	termination dates through November 2015	(445,500)	(1.84)
Other	termination dates through January 2012	(20,833)	(0.08)
		(487,333)	(2.01)
Equity Options (proceeds (148,545))			
CBOE	termination dates through February 2011	(137,111)	(0.57)
DJ Euro Stoxx 50e	termination dates through December 2011	(11,709)	(0.05)
KOSPI 200	termination dates through March 2011	(38,528)	(0.16)
S&P 500	termination dates through March 2011	(12,468)	(0.05)
SPDR	termination dates through March 2011	(25,107)	(0.10)
Other	termination dates through September 2011	(14,542)	(0.06)
		(239,465)	(0.99)
Fx Options (proceeds (1,088,920))			
AUD/USD	termination dates through March 2020	(42,858)	(0.18)
EUR/CHF	termination dates through June 2011	(28,740)	(0.12)
EUR/GBP	termination dates through August 2011	(36,070)	(0.15)
EUR/JPY	termination dates through November 2011	(27,658)	(0.11)
EUR/USD	termination dates through December 2011	(115,003)	(0.47)
GBP/USD	termination dates through September 2011	(25,784)	(0.11)
USD/BRL	termination dates through November 2011	(69,634)	(0.29)
USD/CHF	termination dates through November 2011	(54,037)	(0.22)
USD/CNY	termination dates through December 2011	(54,119)	(0.22)
USD/JPY	termination dates through December 2020	(251,752)	(1.04)
USD/SGD	termination dates through October 2011	(14,913)	(0.06)
XAL/USD	termination dates through December 2011	(39,951)	(0.17)
XAU/USD	termination dates through May 2011	(33,230)	(0.14)
XCU/USD	termination dates through December 2013	(186,425)	(0.77)
Other	termination dates through November 2012	(108,715)	(0.45)
		(1,088,889)	(4.50)
Equity Swaps		(29,134)	(0.12)
Total Investments sold short at Market Value (proceeds (15,590,489))		(25,053,914)	(103.58)

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Operations

31 December 2010

	2010 US\$ '000
Investment income	
Interest income	727,358
Dividend income (net of withholding tax of US\$2,158)	9,546
Total income	736,904
Expenses	
Interest expense	327,071
Professional fees and other	5,798
Operational services fee (Note 4)	118,318
Management fee (Note 5)	43,028
Administration fee (Note 6)	35,111
Commission for futures and options	27,237
Dividend expense on investments sold short	5,255
Performance fee (Note 5)	31,886
Total expenses	593,704
Net investment income	143,200
Net realised and unrealised gain/(loss) on investments	
Net realised gain on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase (Note 2)	2,648,744
Net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase (Note 2)	(2,177,361)
Net realised and unrealised gain on investments	471,383
Non – controlling interest's share in net income	(16,472)
Net increase in net assets resulting from operations	598,111

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

31 December 2010

	2010 US\$ '000
Net increase in net assets resulting from operations	
Net investment income	143,200
Net realised gain on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase	2,648,744
Net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase	(2,177,361)
Non – controlling interest's share in net income	(16,472)
	598,111
Share capital transactions	
<i>Issue of shares</i>	
US Dollar Class A	4,060,827
US Dollar L.P. Class A	910,890
Euro Class A	474,743
Sterling Class A	703,738
Yen Class A	257,731
Australian Dollar Class A	592,027
Brazilian Real Class A	212,707
Canadian Dollar Class A	22,407
Norwegian Krone Class A	123,892
Singapore Dollar Class A	154,398
Swiss Franc Class A	123,372
Euro Class B	18,752
Sterling Class B	213,827
US Dollar Class Y	1,614
Euro Class Y	3,089
Sterling Class Y	38,434
US Dollar Class Z	257,727
Euro Class Z	70,851
Sterling Class Z	19,415
Yen Class Z	17,034

Consolidated Statement of Changes in Net Assets continued

31 December 2010

	2010 US\$ '000
Redemptions	
US Dollar Class A	(3,589,860)
US Dollar L.P. Class A	(274,385)
Euro Class A	(750,016)
Sterling Class A	(569,591)
Yen Class A	(25,782)
Australian Dollar Class A	(3,987)
Brazilian Real Class A	(294,685)
Canadian Dollar Class A	(81,502)
Norwegian Krone Class A	(97,264)
US Dollar Class B	(162,811)
Euro Class B	(83,494)
Sterling Class B	(13,685)
US Dollar Class Y	(336,676)
Euro Class Y	(87,278)
Sterling Class Y	(15,827)
US Dollar Class Z	(68,218)
Euro Class Z	(29,340)
Sterling Class Z	(2,871)
Equalisation write back (Note 15)	33
Net increase in net assets	2,388,347
Net assets – beginning of year	21,800,476
Net assets – end of year	24,188,823

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

31 December 2010

	2010 US\$ '000
Cash flows from operating activities:	
Net increase in net assets resulting from operations	598,111
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Decrease in investments	1,211,753
Decrease in investments purchased under agreement to resell	189,101
Increase in dividends and interest receivable	(39,392)
Decrease in other assets	332
Decrease in due from broker	1,336,030
Decrease in due to broker	(3,602,172)
Increase in accounts payable and accrued expenses	1,593
Increase in dividends and interest payable	166,877
Decrease in performance fee payable	(4,190)
Net cash used in operating activities	(141,957)
Cash flows from financing activities	
Proceeds on issue of shares	8,302,083
Payment on redemption of shares	(6,378,588)
Equalisation factor	(877)
Increase in investments purchased under agreement to resell	(5,191,700)
Increase in investments sold under agreement to repurchase	3,436,082
Net cash provided by financing activities	167,000
Net increase in cash	25,043
Cash – beginning of year	368
Cash – end of year	25,411

Non-cash financing activities not included herein consist of:

Movement in long-term interest-bearing subscriptions receivable of US\$4,515,605.

Movement in redemptions payable of US\$108,683,466.

As a result of the consolidation of certain subsidiaries detailed in Note 2, a non – controlling interest of US\$256,913,949 was recognised in the Consolidated Statement of Asset and Liabilities. As this non – controlling interest does not represent a cash flow for the Master Fund, it has not been included in the Consolidated Statement of Cash Flows.

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

31 December 2010

1. Organisation

Brevan Howard Master Fund Limited (the "Master Fund") is an exempted limited liability company which was incorporated under the Companies Law of the Cayman Islands on 22 January 2003 and commenced trading on 1 April 2003. The Master Fund registered under the Mutual Funds Law of the Cayman Islands on 4 March 2003.

The Master Fund seeks to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund's investment strategy is comprised of global investment strategies, and a number of long and short strategies that may have directional risk.

Brevan Howard Capital Management L.P. (the "Manager"), acting through its sole general partner, Brevan Howard Capital Management Limited, replaced Brevan Howard Offshore Management Limited as Manager of the Master Fund on 18 June 2010. The change of manager was effected by a novation of the management agreement with the Master Fund, following a request from Brevan Howard (Jersey) L.P., the parent entity of Brevan Howard's international group.

The Manager has appointed each of: (i) Brevan Howard Asset Management LLP ("BHAM"); (ii) Brevan Howard Investment Products Limited ("BH IPL"); (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Limited; and (v) DW Investment Management, L.P. as Investment Managers of the Master Fund's assets, in each case subject to risk oversight and treasury management by BH IPL and BHAM respectively. The Manager may in future appoint additional Investment Managers provided that they are affiliates of the Manager or the Investment Managers.

The Manager and the Investment Managers (and/or their members, Directors, employees, related entities and connected persons and their respective members, Directors and employees) may subscribe, directly or indirectly, for shares and/or interests in the Master Fund's feeder funds. The feeder funds comprise of Brevan Howard Fund Limited, Brevan Howard L.P. and BH Macro Limited (together the "Feeder Funds").

The registered office of the Master Fund is at M&C Corporate Services Limited, P.O. Box 309, George Town, Grand Cayman, KY1-1104, Cayman Islands.

2. Significant accounting policies

Basis of preparation

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Consolidated Financial Statements are presented in US Dollars.

Security transactions and valuation

Security transactions are accounted for on a trade date basis.

Most positions of the Master Fund and its Subsidiaries are priced at the same time each day. This provides reliable comparative pricing of positions which are traded in different markets. A snapshot of all markets (excluding Pacific Rim and Australasia) is made at 4:00 p.m. GMT. Pacific Rim and Australasia positions are priced as at local end-of-day mid market levels. The investment valuation under the method employed by the Master Fund and its Subsidiaries as at 31 December 2010 is not materially different to the investment valuation using the last quoted price.

Instruments with directly observable prices are priced to independent external data sources (e.g. exchange traded futures, options, equities, government and corporate debt securities). Illiquid credit markets have resulted in inactive markets for certain of the Master Fund and its Subsidiaries' financial instruments. As a result, there is no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, liquidity discounts, currency, credit, and interest rate risks, loss experience and other factors. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realisable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks and estimates of future cash flows, could significantly affect these fair value estimates.

Estimates of the fair value Level 3 assets and liabilities as defined by the Accounting Standards Codification ("ASC") 820 of the Master Fund and its Subsidiaries' financial instruments are disclosed in Note 3.

Investments in other funds are valued at the latest available reported NAV of the respective fund received from that fund's administrator. In some cases these may be unaudited NAVs.

Some instruments may be priced using models in which some or all parameters are not directly driven by market – observable levels (e.g. unlisted securities, multifaceted options or private placements).

OTC swap, forward and option values are determined based on relevant market information on the underlying reference assets which may include credit spreads, credit event probabilities, index values, individual security values, forward interest rates, variable interest rates, volatility measures and forward currency rates.

Realised gains and losses on investments are calculated using the highest in first out method. Realised and unrealised gains and losses are recorded at the reporting date in the Consolidated Statement of Operations.

2. Significant accounting policies (continued)

Income and expense recognition

Interest income and expense including prime broker and ISDA/ISMA interest is recognised in the Consolidated Statement of Operations on an accrual basis.

Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income on long positions is recognised on the ex-dividend date and dividend declared on short positions existing on the record date is recognised on the ex-dividend date as an expense in the Consolidated Statement of Operations.

Investments purchased under agreements to resell and investments sold under agreements to repurchase

The Master Fund and its Subsidiaries enter into investments purchased under agreements to resell and investments sold under agreements to repurchase. These agreements are accounted for as collateralised investments and are recorded at cost plus accrued interest.

The Investment Managers monitor the market value of the Master Fund and its Subsidiaries' underlying contract amounts, including accrued interest, and requests or provides additional collateral where deemed appropriate. Interest on investments purchased under agreements to resell and investments sold under agreements to repurchase is accrued on a daily basis.

Asset-Backed Securities

The Master Fund and its Subsidiaries may invest in asset-backed securities. These securities include mortgage backed securities, collateralised debt obligations and other asset-backed securities representing interests in pools of loans or other receivables. Mortgage backed securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. The rate of pre-payments on underlying assets will affect the price and volatility of an asset backed security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase.

Collateralised Debt Obligations ("CDOs") include Collateralised Bond Obligations, Collateralised Loan Obligations and other similarly structured securities. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Master Fund and its Subsidiaries invest. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Master Fund and its Subsidiaries may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may produce disputes with the issuer or unexpected investment results.

Derivative financial instruments

The Master Fund and its Subsidiaries use derivative financial instruments such as forward exchange contracts, options, futures contracts, forward rate agreements and swaps, which are recorded at fair value at the reporting date. Realised and unrealised changes in fair values are included in realised and unrealised gains and losses on investments in the Consolidated Statement of Operations in the period in which the changes occur. The fair value of derivative financial instruments at the reporting date generally reflects the amount that the Master Fund and its Subsidiaries would receive or pay to terminate the contract at the reporting date. Many derivative financial instruments are exchange traded or are traded in the over-the-counter market where market values are normally readily obtainable. Where such market prices are not readily available, fair values will be determined using commercial products which utilise valuation models that are consistent with market pricing methods.

When the Master Fund and its Subsidiaries purchase a put or call option, an amount, equal to the premium paid by the Master Fund and its Subsidiaries, is recorded as an investment and is subsequently adjusted to the current fair value of the option purchased on the reporting date.

Premiums paid for purchasing options that expire unexercised are treated by the Master Fund and its Subsidiaries on the expiration date as realised losses from investments. The difference between the premium and the amount received on writing an option to effect a closing transaction, including brokerage commissions, is also treated as a realised loss, or, if the premium is less than the amount received from the closing transaction, as a realised gain. If a call option is exercised, the premium is added to the cost of purchase of the underlying security or currency in determining whether the Master Fund and its Subsidiaries has realised a gain or loss. If a put option is exercised, the premium reduces the proceeds of the securities sold by the Master Fund and its Subsidiaries.

Unrealised gains or losses on open forward foreign exchange contracts and forward rate agreements represent the Master Fund and its Subsidiaries' net equity therein and is calculated as the present value of the difference between the contract date rate and the applicable forward rate at the reporting date, applied to the face amount of the forward contract. The unrealised gain or loss at the reporting date is included in the Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on open futures contracts are calculated as the difference between the contract price at trade date and the contract's revaluation price. Any payments made to satisfy initial and variation margin are reflected as due to and due from broker balances on the Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on swap agreements represent the cumulative fair value change since the last reporting date and are calculated as the present value of the future net cash flows to be received and paid under the agreement.

Notes to the Consolidated Financial Statements

continued

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2. Significant accounting policies (continued)

Derivative financial instruments (continued)

The following table sets forth the fair value of the Master Fund and its Subsidiaries' derivative contracts by certain risk types as of 31 December 2010 in accordance with ASC 815. The values in the table below exclude the effects of cash received or posted pursuant to derivative contracts, and therefore are not representative of the Master Fund and its Subsidiaries' net exposure. The derivative assets and derivative liabilities are included in "Investments at market value" and "Investments sold short at market value", respectively, in the Consolidated Statement of Assets and Liabilities.

Derivative contracts for trading activities	Derivative Assets US\$ '000	Derivative Liabilities US\$ '000
Foreign Exchange Contracts (5,693 open positions)	4,706,424	4,203,600
Commodity Contracts (794 open positions)	646,809	520,822
Credit Contracts (565 open positions)	770,826	662,187
Equity Contracts (936 open positions)	359,548	278,474
Interest Rate Contracts (4,630 open positions)	11,374,331	8,379,498
Gross Fair Value of Derivative Contracts	17,857,938	14,044,581

The following table sets forth by certain risk types the Master Fund and its Subsidiaries' gains/ (losses) related to derivative activities for the year ended 31 December 2010 in accordance with ASC 815. These gains/(losses) should be considered in the context that derivative contracts may have been executed to economically hedge certain securities and accordingly, certain gains or losses on derivative contracts may offset certain gains or losses attributable to securities. These gains/(losses) are included in "Net realised and unrealised gain/(loss) on investments" in the Consolidated Statement of Operations.

	Realised Gains/(Losses) Year Ended 31 December 2010 US\$ '000	Change in Unrealised Gains/(Losses) Year Ended 31 December 2010 US\$ '000
Foreign Exchange Contracts	759,864	84,031
Commodity Contracts	(18,572)	(6,458)
Credit Contracts	681,692	(508,056)
Equity Contracts	(193,347)	(11,813)
Interest Rate Contracts	959,465	(2,529,639)
Total	2,189,102	(2,971,935)

The Master Fund enters into derivative contracts that meet the definition of a credit derivative as defined by ASC 815. These contracts are primarily written and purchased credit default swaps on single issuers, asset-backed securities, credit indices and index or CDO tranches.

The following table relates to the Master Fund's written credit derivatives as at 31 December 2010:

Maximum Payout/ Notional Amount by Period of Expiration

Contract Type	0-2 Years '000	2-5 Years '000	5 Years or Greater '000	Total '000
Sovereign	–	–	21,125	21,125
Credit index – corporate	–	79,938	–	79,938
Corporates	55,000	99,324	–	154,324
Credit index – mortgage backed	–	–	32,500	32,500
Mortgage backed	–	–	13,495	13,495
Credit index tranche – corporate	(37,973)	396,935	–	358,962
Bespoke CDO tranches	85,000	–	–	85,000
Total	102,027	576,197	67,120	745,344

2. Significant accounting policies (continued)**Derivative financial instruments (continued)****Maximum Payout/Notional Amount**

Contract Type	Written Credit Derivative '000	Offsetting Purchased Credit Derivative '000	Net of Offsetting Purchased Credit Derivative '000	Written Credit Derivative at Fair Value US\$ '000
Sovereign	21,125	–	21,125	(1,442)
Credit index – corporate	279,596	(199,658)	79,938	2,266
Corporates	154,324	–	154,324	3,299
Credit index – mortgage backed	117,500	(85,000)	32,500	(17,630)
Mortgage backed	13,495	–	13,495	(13,378)
Credit index tranche – corporate	441,424	(82,462)	358,962	(168,362)
Bespoke CDO tranches	85,000	–	85,000	(7,067)
Total	1,112,464	(367,120)	745,344	(202,314)

The Master Fund and its Subsidiaries may execute these types of credit derivatives as it seeks to increase its total return or as a means of hedging credit exposure.

Period of expiration, contract type, maximum payout and fair value are indicators of payment / performance risk. As a provider of credit protection, the Master Fund receives a stream of payments from the counterparty representing the premium on the contract in exchange for guaranteeing the principal payment on a reference security or obligation upon the issuer's default. Upon the occurrence of a specified credit event, as a seller of credit protection, the Master Fund is entitled to take possession of the defaulted underlying security and pay the buyer an amount equal to the notional amount of the swap. It may alternatively pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap reduced by the recovery value of the reference obligation.

Investments sold short

The Master Fund and its Subsidiaries may sell a security it does not own in anticipation of a decline in the market value of that security. When the Master Fund and its Subsidiaries sell a security short, it must borrow the security and deliver it to the broker-dealer through which it made the short sale. The Master Fund and its Subsidiaries are required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the value at which the Master Fund and its Subsidiaries sold the security short, or a loss, unlimited in size, will be recognised upon the termination of a short sale and recorded as a net realised gain or loss on investments in the Consolidated Statement of Operations. Investments sold short are recorded as liabilities on the Consolidated Statement of Assets and Liabilities.

Foreign currency translation

Investment securities and other assets and liabilities denominated in foreign currencies are translated into US Dollar amounts at prevailing exchange rates at the reporting date. Purchases and sales of investment securities in foreign currencies and income and expense items denominated in foreign currencies are translated into US Dollar amounts at the exchange rate on the respective dates of such transactions.

The Master Fund and its Subsidiaries do not isolate that portion of the results of operations resulting from changes in currency exchange rates on investments from the fluctuations arising from changes in market prices of securities held. All currency gains and losses are included in net realised and unrealised gain or loss from investments in the Consolidated Statement of Operations.

Use of estimates

The preparation of Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. In particular, valuation models used to determine the fair value of unlisted derivative instruments require the use of a number of assumptions.

Notes to the Consolidated Financial Statements

continued

31 December 2010

2. Significant accounting policies (continued)

Basis of consolidation

The Master Fund has consolidated the following entities (together the "Subsidiaries") as at 31 December 2010:

- BHMF Investments Limited a company incorporated with limited liability on 13 February 2008 under the laws of the Cayman Islands;
- BHMF Investments II Limited a company incorporated with limited liability on 7 May 2010 under the laws of the Cayman Islands;
- WCG Strategies Fund Limited, a company incorporated with limited liability on 27 October 2008 under the laws of the Cayman Islands;
- Brevan Howard Systematic Trading Master Fund Limited, a company incorporated with limited liability on 6 January 2010 under the laws of the Cayman Islands;
- Brevan Howard Equity Strategies Master Fund Limited, a company incorporated with limited liability on 11 April 2006 under the laws of the Cayman Islands;

The Master Fund owns 100% of BHMF Investments Limited, 100% of BHMF Investments II Limited, 100% of WCG Strategies Fund Limited, 81.40% of Brevan Howard Systematic Trading Master Fund Limited and 67.80% of Brevan Howard Equity Strategies Master Fund Limited as at 31 December 2010.

The Consolidated Financial Statements include full consolidation of wholly owned subsidiaries and of majority owned subsidiaries, except where the effect on the Master Fund's financial position and results of operations are immaterial. Transactions between the Master Fund and the Subsidiaries have been eliminated on consolidation.

Cash

Cash consists of cash on hand and bank balances.

Due from and to brokers

Amounts receivable from and payable to brokers includes settlement of trades along with deposits held as collateral. As at 31 December 2010, deposits held as collateral amounted to US\$1,237,193,360.

Allocation of income and expenses between share classes

Income and expenses that are identifiable with a particular class are allocated to that class in computing its Net Asset Value (NAV).

Income and expenses that are common to all classes are allocated between classes based on their monthly NAVs.

3. Fair value measurements

During the year ended 31 December 2010, the Master Fund has adopted the Revised FASB ASC 820 – 10, "Fair Value Measurements and Disclosures". The revision to ASC 820 – 10 requires reporting entities to make increased disclosures about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements. The revised ASC 820 – 10 also clarifies existing fair value measurement disclosure guidance about the level of disaggregation, inputs and valuation techniques of investment securities.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price).

The fair value hierarchy under ASC 820 prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model derived valuations for which all significant inputs are observable, either directly or indirectly in active markets;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

3. Fair value measurements (continued)

The hierarchy requires the use of observable market data when available. As required by ASC 820, investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following is a summary of the levels within the fair value hierarchy for the Master Fund's investments as at 31 December 2010:

Assets

Fair value measurement at reporting date using:	Level 1: Quoted prices in active markets US\$ '000	Level 2: Significant other observable inputs US\$ '000	Level 3: Significant unobservable inputs US\$ '000	Total US\$ '000
Equity Securities	850,869	1,140	–	852,009
Private Placements	–	12,787	70,491	83,278
Funds	–	1,527,150	–	1,527,150
Fixed Income Securities				
US Government Securities	18,324,647	–	–	18,324,647
Non US Government Securities	11,524,802	–	–	11,524,802
Corporate Debt Securities	1,229,601	7,429	–	1,237,030
Asset Backed Securities	–	705,729	5,893	711,622
Mortgage Backed Securities	–	1,379,381	795	1,380,176
Other Debt Obligations	–	25,347	2,221	27,568
Derivatives				
Foreign Exchange contracts	1,492	4,704,932	–	4,706,424
Commodity contracts	547,781	99,028	–	646,809
Credit contracts	–	770,826	–	770,826
Equity contracts	167,088	192,460	–	359,548
Interest rate contracts	532,959	10,841,372	–	11,374,331
Total assets	33,179,239	20,267,581	79,400	53,526,220

Liabilities

Fair value measurement at reporting date using:	Level 1: Quoted prices in active markets US\$ '000	Level 2: Significant other observable inputs US\$ '000	Level 3: Significant unobservable inputs US\$ '000	Total US\$ '000
Equity Securities	236,549	–	–	236,549
Fixed Income Securities				
US Government Securities	1,938,079	–	–	1,938,079
Non US Government Securities	8,828,397	–	–	8,828,397
Mortgage Backed Securities	–	6,308	–	6,308
Derivatives				
Foreign Exchange contracts	45	4,203,555	–	4,203,600
Commodity contracts	475,068	45,754	–	520,822
Credit contracts	–	662,187	–	662,187
Equity contracts	155,498	122,976	–	278,474
Interest rate contracts	481,113	7,898,385	–	8,379,498
Total liabilities	12,114,749	12,939,165	–	25,053,914

Notes to the Consolidated Financial Statements

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3. Fair value measurements (continued)

The fair value of Equity Securities by industry type is presented in the Consolidated Condensed Schedule of Investments.

Foreign exchange contracts include foreign exchange futures, forwards, swaps, options and any other derivative contract in which the reference asset is a foreign exchange rate. Commodity contracts include commodity futures and options and any other derivative contract in which the reference asset is a commodity price or index. Credit contracts include credit default swaps, credit index options and any other derivative contract in which the reference asset is a credit event or other credit risk on an underlying entity, financial asset or a credit index. Equity contracts include equity futures, forwards, options, swaps, contracts for difference and any other derivative contract in which the reference asset is an equity price or index. Interest rate contracts include interest rate futures, forwards, swaps, options, caps and floors, swaptions, forward rate agreements and any other derivative contract in which the reference asset is an interest rate or debt security.

The Master Fund and its Subsidiaries policy is to recognise transfers in and transfers out of each level as at the end of each month.

Transfers in and transfers out of Level 3 have occurred due to the change in availability of observable market data.

There were no significant transfers between Level 1 and Level 2 during the year ended 31 December 2010. The Master Fund had no investments measured at fair value on a non-recurring basis during the year ended 31 December 2010.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Master Fund and its Subsidiaries have classified within the Level 3 category. As a result, the unrealised gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

Level 3 Assets

	Asset Backed Securities US\$ '000	Mortgage Backed Securities US\$ '000	Other Debt Obligations US\$ '000	Private Placement US\$ '000	Total US\$ '000
Investments					
Beginning balance as of 1 January 2010	16,548	40,189	–	61,945	118,682
Purchases	8,313	7,753	2,479	15,390	33,935
Sales	(7,075)	(6,455)	(213)	(1,682)	(15,425)
Transfers in to Level 3	2,460	718	–	–	3,178
Transfers out of Level 3	(18,681)	(41,904)	–	–	(60,585)
Realised gain/(loss)	947	476	(2)	(98)	1,323
Change in unrealised gain/(loss)	3,381	18	(43)	(5,064)	(1,708)
Ending balance as of					
31 December 2010	5,893	795	2,221	70,491	79,400

Liabilities

At 31 December 2010, there were no Level 3 investments held short.

The change in unrealised losses for the year ended 31 December 2010 for investments still held at 31 December 2010 amounted to US\$1,707,789 and is reflected in net change in unrealised appreciation/(depreciation) on investments on the Consolidated Statement of Operations.

4. Operational services fee

The Manager has received from the Master Fund a fee of 1/12 of 0.50% per month of the NAV, prior to the deduction of management and performance fees, of the Master Fund for the year to 31 December 2010 (the "operational services fee") as at the last valuation day in each month (excluding for these purposes such part of the NAV of the Master Fund which is attributable to (i) any investments made in other investment funds managed by the Manager which also charge an operational services fee, or (ii) the Class Z ordinary shares in the Master Fund). The Manager has appointed BHAM to provide certain services in respect of the Master Fund (including middle-office and back-office services and information technology services), for which the Manager pays BHAM a fee equal to the operational services fee the Manager receives from the Master Fund. Until July 2010, BHAM received the fee directly from the Master Fund.

The operational services fee for the year ended 31 December 2010 amounted to US\$118,317,813. The operational services fee outstanding at 31 December 2010 is US\$126,439.

5. Management and performance fees

The Manager receives a management fee of 1/12 of 2% (or a pro rata proportion thereof) per month of the NAV (before deduction of that month's management fee and before making any deduction for any accrued performance fee) as at the last valuation day in each month, payable monthly in arrears on Class X shares and Class Y shares. No management fees are payable in respect of Class A shares, Class B shares and Class Z shares.

The Manager also receives a performance fee. The performance fee is equal to the relevant percentage of the appreciation in the NAV per share of that class during that calculation period which is above the base NAV of that class. The base NAV per share is the greater of the NAV per share of the relevant class at the time of issue of such share and the highest NAV per share achieved as at the end of any previous calculation period.

For the Master Fund, the applicable performance fees are 20% for Class X and 25% for Class Y. No performance fees are payable in respect of Class A shares, Class B shares and Class Z shares. Performance fees may be settled in cash or in the cash equivalent of US Treasury Bills at fair value on the date of transfer. In respect of the Subsidiaries, the applicable performance fees for 2010 are 20% for Class A and Class B of Brevan Howard Systematic Trading Master Fund Limited, 20% for Class A of WCG Strategies Fund Limited and 20% for Series A Interests of Brevan Howard Equity Strategies Fund L.P. Performance fees for the period were US\$31,885,852.

At 31 December 2010 the Master Fund held investments in the following funds (each an "underlying fund investment") managed by one or more of the Brevan Howard group of affiliated entities:

Brevan Howard Equity Strategies Fund L.P.	US\$386,627,659
Brevan Howard Emerging Markets Strategies Fund L.P.	US\$505,994,539
Brevan Howard Credit Catalysts Master Fund Limited	US\$436,183,865
Brevan Howard Strategic Opportunities Fund Limited	US\$116,352,937
WCG Strategies Fund Limited	US\$1,065,153,533
Brevan Howard Commodities Strategies Fund L.P.	US\$215,666,236
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund	US\$105,062,500
Brevan Howard Systematic Trading Master Fund Limited	US\$320,789,249
Brevan Howard Investment Fund – Absolute Return Bond Plus Fund	US\$99,472,425
BHMF Investments Limited	US\$48,417,228
BHMF Investments II Limited	US\$8,011,652

The return on the Master Fund's investment in these funds is net of applicable performance and management fees. To ensure that the effective rate of management fees and/or performance fees that is ultimately borne by shareholders in the Master Fund or Feeder Funds (in relation to each underlying fund investment) is not greater than the rate of performance and/or management fees applicable to the class of share held by that investor, the Master Fund or Feeder Fund reduces management and performance fees charged in relation to these investment holdings accordingly.

6. Administration fee

Under the terms of the Administrative Services Agreement, as amended, dated 22 December 2008 between International Fund Services (Ireland) Limited ("IFS") and the Master Fund, the Administrator receives a fee based on the month-end NAV of the Master Fund and its Subsidiaries calculated and payable monthly in arrears.

The administration fee on a monthly basis is 1/12 of 15 basis points, of the excess of the Master Fund's month end NAV over the sum of NAV that represents the amount of investment made by the Master Fund in other Brevan Howard managed funds administered by IFS held in the same month. The administration fee outstanding at 31 December 2010 is US\$2,962,075.

Administration fees are also incurred on investments made in affiliated and non-affiliated funds by the Master Fund that are not administered by IFS.

Notes to the Consolidated Financial Statements

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31 December 2010

7. Investments purchased under agreements to resell and investments sold under agreements to repurchase

At 31 December 2010, investments with a market value of US\$19,046,959,791 were pledged to the Master Fund and its Subsidiaries as collateral (investments purchased under agreements to resell) and investments with a value of US\$20,227,123,692 were pledged by the Master Fund and its Subsidiaries as collateral (investments sold under agreements to repurchase).

All agreements to repurchase mature by 5 April 2011 and all agreements to resell mature by 5 April 2011.

8. Share capital

The Master Fund has an authorised share capital of:

- €100,000 divided into 10,000,000 ordinary shares of €0.01 par value;
- US\$400,000 divided into 40,000,000 ordinary shares of US\$0.01 par value;
- £100,000 divided into 10,000,000 ordinary shares of £0.01 par value;
- ¥10,000,000 divided into 10,000,000 ordinary shares of ¥1.00 par value;
- AUD400,000 divided into 40,000,000 ordinary shares of AUD0.01 par value;
- BRL400,000 divided into 40,000,000 ordinary shares of BRL0.01 par value;
- CAD400,000 divided into 40,000,000 ordinary shares of CAD0.01 par value;
- CHF400,000 divided into 40,000,000 ordinary shares of CHF0.01 par value;
- NOK400,000 divided into 40,000,000 ordinary shares of NOK0.01 par value;
- SGD400,000 divided into 40,000,000 ordinary shares of SGD0.01 par value.

All of which may be issued as Class A, Class B, Class X, Class Y and Class Z shares in any number of series.

The Class A US Dollar share class is divided into two series of shares, relating to Brevan Howard Fund Limited and Brevan Howard L.P. These series commenced on 1 April 2003 and 1 February 2004 respectively. All Class A US Dollar, Euro, Sterling, Australian Dollar, Canadian Dollar, Brazilian Real, Norwegian Krone, Singapore Dollar and Yen shares are held by Brevan Howard Fund Limited, whilst all Class A US Dollar L.P. shares are held by Brevan Howard L.P. All

Class B US Dollar, Euro and Sterling shares are held by BH Macro Limited. Class Y US Dollar, Euro and Sterling shares are held by Brevan Howard Global Opportunities Master Fund Limited. Class Z US Dollar, Euro, Sterling and Yen shares are held by Brevan Howard Multi-Strategy Master Fund Limited.

The rights of the Class X US Dollar, Euro and Sterling Shares are substantially the same as those set out in respect of Class A US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus save that no redemption fees are payable in respect of such shares.

The rights of the Class Y US Dollar, Euro and Sterling Shares are substantially the same as those set out in respect of Class B US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus.

The rights of the Class Z US Dollar, Euro, Sterling and Yen Shares are substantially the same as those set out in respect of Class A US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus.

8. Share capital (continued)

	2010 Shares
Shares in issue at start of year	
US Dollar Class A	3,553,068
US Dollar L.P. Class A	629,973
Euro Class A	445,120
Sterling Class A	233,682
Yen Class A	2,535,419
Australian Dollar Class A	184,322
Brazilian Real Class A	178,148
Canadian Dollar Class A	124,405
Norwegian Krone Class A	164,335
US Dollar Class B	345,142
Euro Class B	146,016
Sterling Class B	221,113
US Dollar Class Y	3,536,675
Euro Class Y	641,314
Sterling Class Y	1,375,337
Shares issued during the year	
US Dollar Class A	1,137,245
US Dollar L.P. Class A	283,318
Euro Class A	102,277
Sterling Class A	116,510
Yen Class A	1,965,092
Australian Dollar Class A	579,175
Brazilian Real Class A	354,276
Canadian Dollar Class A	22,343
Norwegian Krone Class A	696,371
Singapore Dollar Class A	200,631
Swiss Franc Class A	120,493
Euro Class B	7,449
Sterling Class B	65,834
US Dollar Class Y	12,919
Euro Class Y	20,088
Sterling Class Y	205,557
US Dollar Class Z	2,557,101
Euro Class Z	523,245
Sterling Class Z	123,546
Yen Class Z	137,730

Notes to the Consolidated Financial Statements

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31 December 2010

8. Share capital (continued)

	2010 Shares
Share redeemed during the year	
US Dollar Class A	(991,097)
US Dollar L.P. Class A	(84,111)
Euro Class A	(159,927)
Sterling Class A	(92,513)
Yen Class A	(194,609)
Australian Dollar Class A	(4,149)
Brazilian Real Class A	(445,891)
Canadian Dollar Class A	(79,528)
Norwegian Krone Class A	(574,904)
US Dollar Class B	(79,990)
Euro Class B	(30,688)
Sterling Class B	(4,179)
US Dollar Class Y	(2,710,802)
Euro Class Y	(525,605)
Sterling Class Y	(82,234)
US Dollar Class Z	(662,051)
Euro Class Z	(217,310)
Sterling Class Z	(17,920)
Shares in issue at end of year	
US Dollar Class A	3,699,216
US Dollar L.P. Class A	829,180
Euro Class A	387,470
Sterling Class A	257,679
Yen Class A	4,305,902
Australian Dollar Class A	759,348
Brazilian Real Class A	86,533
Canadian Dollar Class A	67,220
Norwegian Krone Class A	285,802
Singapore Dollar Class A	200,631
Swiss Franc Class A	120,493
US Dollar Class B	265,152
Euro Class B	122,777
Sterling Class B	282,768
US Dollar Class Y	838,792
Euro Class Y	135,797
Sterling Class Y	1,498,660
US Dollar Class Z	1,895,050
Euro Class Z	305,935
Sterling Class Z	105,626
Yen Class Z	137,730

It is envisaged that no income or gains are to be distributed by way of dividend.

9. Taxes

Under current Cayman Islands laws, the Master Fund is not required to pay any taxes in the Cayman Islands on either income or capital gains. The Master Fund has received an undertaking from the Governor in Cabinet in the Cayman Islands exempting it from any such taxes for a period of 20 years until 11 February 2023. The only taxes payable by the Master Fund on its income are withholding taxes applicable to certain income. Accordingly, no provision for taxes is recorded in these Consolidated Financial Statements.

ASC 740, Income Taxes, established financial accounting and disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a tax return. The Manager has reviewed the Master Fund's tax positions for all open tax years and has concluded that no provision for income tax is required in the Master Fund's Consolidated Financial Statements.

The Master Fund is subject to potential examination by certain taxing authorities in various jurisdictions. The tax liability is also subject to ongoing interpretation of laws by taxing authorities. The tax years under potential examination vary by jurisdiction.

10. Financial instruments with off-balance sheet risk or concentration of credit risk

Derivative financial instruments may result in off-balance sheet market and credit risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable or more onerous. If the markets should move against one or more positions that the Master Fund and its Subsidiaries holds, the Master Fund and its Subsidiaries could incur losses greater than the unrealised amounts recorded in the Consolidated Statement of Assets and Liabilities. The principal credit risk is that the counterparty to the Master Fund and its Subsidiaries will default and fail to fulfill the terms of the agreement.

Investments sold short have market risk to the extent that the Master Fund and its Subsidiaries, in satisfying its obligation, may have to purchase securities to cover a short position at a higher value than that recorded on the Consolidated Statement of Assets and Liabilities.

Futures contracts expose the Master Fund and its Subsidiaries to credit, market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk such that changes in the market values of the securities or indices underlying a contract may exceed the amount recognised in the Consolidated Statement of Assets and Liabilities. Liquidity risk represents the possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its futures position in times of high volatility and financial stress at a reasonable price.

Forward contracts expose the Master Fund and its Subsidiaries to market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk to the extent that adverse changes occur in the value of the underlying asset. Liquidity risk represents the

possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its forwards positions in times of high volatility and financial stress at a reasonable price.

As a purchaser of an option contract, the Master Fund and its Subsidiaries are subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Master Fund and its Subsidiaries exercise the option. As a purchaser of an option contract, the Master Fund and its Subsidiaries are only subject to market risk to the extent of the premium paid.

The Master Fund and its Subsidiaries purchase both exchange-traded and over-the-counter options. For exchange-traded option contracts, the stock exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. Over-the-counter option contracts are not guaranteed by any regulated stock exchange.

The Master Fund and its Subsidiaries invest in fixed income securities and bank loans. Until such investments are sold or mature, the Master Fund and its Subsidiaries are exposed to credit risk relating to whether the issuer will meet its obligation as it comes due.

Entering into credit default swap agreements and contracts for difference exposes the Master Fund and its Subsidiaries to market risks equivalent to actually holding securities of the notional value but typically involve little capital commitment relative to the exposure achieved. The gains or losses of the Master Fund and its Subsidiaries may therefore be significantly greater than this initial commitment.

In connection with investments sold under agreements to repurchase, it is the Master Fund and its Subsidiaries' policy that their prime brokers take possession of the underlying collateral securities. If the seller defaults and the fair value of the collateral declines, realisation of the collateral by the Master Fund and its Subsidiaries may be delayed or insufficient.

In accordance with ASC 815 the Master Fund records its trading-related derivative activities on a fair value basis (as described in Note 2).

Assets and liabilities represent the fair value of the Master Fund's and its Subsidiaries' holdings at the year end. These assets and liabilities are not representative of the outstanding credit risk to the Master Fund and its Subsidiaries due to the existence of master netting agreements. The table reflects the gross fair value of the Master Fund's and its Subsidiaries' derivative instruments.

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10. Financial instruments with off-balance sheet risk or concentration of credit risk (continued)

	Fair value at 31 December 2010	
	Assets US\$ '000	Liabilities US\$ '000
Interest rate guarantee options	2,000,119	675,660
Forward rate agreements	87,080	95,344
Interest rate swaps	5,169,465	5,211,733
Cross currency swaps	250,656	253,170
Credit default swaps	770,827	662,186
Swaptions	3,365,774	1,691,314
FX contracts	2,713,737	2,861,496
Exchange traded futures	234,921	161,527
Exchange traded options	613,820	587,330
Commodity options	562,962	487,333
Equity options	303,211	239,465
FX options	1,740,624	1,088,889
Equity swaps	44,742	29,134
	17,857,938	14,044,581

Fair values represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Master Fund and its Subsidiaries maintain trading relationships with counterparties that include domestic and foreign brokers, dealers and financial institutions; these relationships could result in the concentration of the credit risk if counterparties fail to fulfill their obligations or the value of any collateral becomes inadequate.

BHIPL has formulated credit review policies that attempt to control credit risk by following an established credit approval process, daily monitoring of net exposure to individual counterparties, requiring the segregation of collateral where possible, and using master netting agreements whenever possible.

Liquidity risk

The Master Fund's and its Subsidiaries investment portfolios are leveraged and are actively managed to ensure there is sufficient liquidity to meet collateral calls, shareholder redemption requests and trading and other liabilities as they become due.

The Master Fund and its Subsidiaries seek to trade mainly in investments that are sufficiently liquid and readily realisable at close to fair value in order to meet any potential liquidity requirement. To this end, the Master Fund and its Subsidiaries monitor the speed at which the portfolio can be liquidated under ordinary market conditions and further monitors liquidity by a number of additional measures. Deteriorating market conditions, however, may hamper the ability of the fund to liquidate its investments in an orderly manner.

From time to time, market participants with which the Master Fund and its Subsidiaries effect transactions might cease making markets or quoting prices in certain instruments, may only continue to do so in limited size, or may widen the spreads at which they are prepared to transact. In such instances, the Master Fund and its Subsidiaries might be unable to enter into desired transactions, or close out existing transactions, at normal market levels, which might adversely affect its performance.

The Master Fund's and its Subsidiaries liquidity risk is monitored on a daily basis by staff of the Investment Managers, independent of the portfolio management team, using measures of risk and unencumbered cash and cash equivalents, and includes an escalation process in circumstances where liquidity approaches tolerance levels.

The Master Fund and its Subsidiaries may restrict redemptions in accordance with their Articles of Association if they receive requests for the redemption of Shares on any Redemption Day representing in aggregate more than ten per cent of the total number of Ordinary Shares then in issue on a class by class basis.

11. Financial Highlights

The following tables include selected data for share classes outstanding throughout the year and other performance information derived from the Consolidated Financial Statements. The per share amounts and ratios which are shown reflect the consolidated income and expenses of the Master Fund.

Per Share Operating Performance	US Dollar Class A US\$	Euro Class A €	Sterling Class A £	Yen Class A ¥	Australian Dollar Class A AUD	Brazilian Real Class A BRL	Canadian Dollar Class A CAD	Norwegian Krone Class A NOK	Singapore Dollar Class A SGD	Swiss Franc Class A CHF
Net asset value, beginning of year	3,571.49	3,496.09	3,882.67	11,626.70	1,017.03	1,023.51	1,012.23	1,014.43	–	–
Shares issued during year	–	–	–	–	–	–	–	–	1,000.00	1,000.00
Income from investment operations										
Net investment income/(loss)	22.54	22.97	25.25	73.66	6.50	6.67	6.45	6.61	1.36	1.36
Net realised and unrealised gain/(loss) on investments	78.43	77.20	89.40	213.09	64.64	96.30	23.65	39.47	7.82	(14.69)
Total from investment operations	100.97	100.17	114.65	286.75	71.14	102.97	30.10	46.08	9.18	(13.33)
Net asset value, end of year	3,672.46	3,596.26	3,997.32	11,913.45	1,088.17	1,126.48	1,042.33	1,060.51	1,009.18	986.67
Total return before performance fee	2.83%	2.87%	2.95%	2.47%	6.99%	10.06%	2.97%	4.54%	0.92%	(1.33%)
Performance fee	–	–	–	–	–	–	–	–	–	–
Total return after performance fee	2.83%	2.87%	2.95%	2.47%	6.99%	10.06%	2.97%	4.54%	0.92%	(1.33%)
	US\$ '000	€ '000	£ '000	¥ '000	AUD '000	BRL '000	CAD '000	NOK '000	SGD '000	CHF '000
Supplemental Data										
Net assets at 31 December 2010	13,585,220	1,393,441	1,030,021	51,298,181	826,298	97,478	70,066	303,095	202,474	118,887
Average net assets for 2010	14,392,667	1,503,043	1,002,406	43,619,535	414,348	357,597	116,146	310,567	129,502	119,443
Ratio to average net assets										
Operating expense	1.03%	1.04%	1.04%	1.02%	1.02%	1.05%	1.03%	1.05%	1.00%	1.02%
Interest and dividend expense	1.36%	1.34%	1.37%	1.39%	1.41%	1.40%	1.28%	1.33%	1.77%	1.80%
Performance fee	–	–	–	–	–	–	–	–	–	–
	2.39%	2.38%	2.41%	2.41%	2.43%	2.45%	2.31%	2.38%	2.77%	2.82%
Net investment income/(loss)	0.62%	0.65%	0.62%	0.59%	0.59%	0.51%	0.64%	0.67%	0.52%	0.55%

Operating expenses are total expenses from the Consolidated Statement of Operations, less interest and dividend expense, commission for futures and options and performance fee.

Operating expenses, interest and dividend expense, commission for futures and options and net investment income/(loss) are annualised. Total returns and ratios on performance fees are not annualised.

Notes to the Consolidated Financial Statements

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11. Financial Highlights (continued)

Per Share Operating Performance	US Dollar	US Dollar	Euro	Sterling	US Dollar	Euro	Sterling	US Dollar	Euro	Sterling	Yen
	L.P. Class A US\$	Class B US\$	Class B €	Class B £	Class Y US\$	Class Y €	Class Y £	Class Z US\$	Class Z €	Class Z £	Class Z ¥
Net asset value, beginning of year	3,209.18	2,012.78	2,022.66	2,088.76	124.52	120.02	120.35	–	–	–	–
Shares issued during year	–	–	–	–	–	–	–	100.00	100.00	100.00	10,000.00
Income from investment operations											
Net investment income/(loss)	20.60	12.76	13.35	13.65	(1.85)	(1.75)	(1.76)	1.19	1.20	1.20	78.36
Net realised and unrealised gain/(loss) on investments	70.06	44.21	44.66	48.10	2.71	2.63	2.74	2.39	2.46	2.49	181.77
Total from investment operations	90.66	56.97	58.01	61.75	0.86	0.88	0.98	3.58	3.66	3.69	260.13
Net asset value, end of year	3,299.84	2,069.75	2,080.67	2,150.51	125.38	120.90	121.33	103.58	103.66	103.69	10,260.13
Total return before performance fee	2.83%	2.83%	2.87%	2.96%	1.01%	1.05%	1.13%	3.58%	3.66%	3.69%	2.60%
Performance fee	–	–	–	–	(0.32%)	(0.32%)	(0.32%)	–	–	–	–
Total return after performance fee	2.83%	2.83%	2.87%	2.96%	0.69%	0.73%	0.81%	3.58%	3.66%	3.69%	2.60%
	US\$ '000	US\$ '000	€ '000	£ '000	US\$ '000	€ '000	£ '000	US\$ '000	€ '000	£ '000	¥ '000
Supplemental Data											
Net assets at 31 December 2010	2,736,167	548,795	255,460	608,093	105,167	16,418	181,832	196,295	31,713	11,652	1,413,125
Average net assets for 2010	2,623,935	618,761	272,990	540,130	144,550	24,410	169,995	178,212	27,628	10,372	579,017
Ratio to average net assets											
Operating expense	1.04%	1.03%	1.04%	1.03%	2.85%	2.86%	2.82%	0.33%	0.34%	0.34%	0.32%
Interest and dividend expense	1.38%	1.33%	1.34%	1.38%	1.24%	1.23%	1.37%	1.45%	1.44%	1.46%	1.58%
Performance fee	–	–	–	–	0.27%	0.26%	0.31%	–	–	–	–
	2.42%	2.36%	2.38%	2.41%	4.36%	4.35%	4.50%	1.78%	1.78%	1.80%	1.90%
Net investment income/(loss)	0.62%	0.64%	0.66%	0.62%	(1.34%)	(1.29%)	(1.47%)	1.25%	1.28%	1.25%	1.27%

Operating expenses are total expenses from the Consolidated Statement of Operations, less interest and dividend expense, commission for futures and options and performance fee.

Operating expenses, interest and dividend expense, commission for futures and options and net investment income/(loss) are annualised. Total returns and ratios on performance fees are not annualised.

12. Related party transactions

With effect from 18 June 2010, Brevan Howard Capital Management L.P. acting through its sole general partner, Brevan Howard Capital Management Limited, became the Manager of the Master Fund. The Manager has appointed each of: (i) BHAM; (ii) BHIPL; (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Limited; and (v) DW Investment Management, L.P. as Investment Managers of the Master Fund's assets. The transactions with the Investment Managers and fees payable at the year end are disclosed in Note 5 to the Consolidated Financial Statements.

Brevan Howard Multi-Strategy Master Fund Limited ("BHMS") is a Cayman incorporated limited liability company that is permitted to invest its assets in any investment funds of which one or more of the Brevan Howard group of affiliated companies is the manager or investment manager. The Manager of the Master Fund, is also the manager of BHMS. BHMS held 1.13% (US\$272,557,670) of the net assets of the Master Fund through a holding of US Dollar, Euro, Sterling and Yen Class Z shares as at 31 December 2010.

BH Global Limited ("BHG") is a Guernsey incorporated closed-ended investment company listed on the London Stock Exchange that invests all of its assets in the Brevan Howard Global Opportunities Master Fund Limited ("BHGOMF"). The Manager of the Master Fund, is also the manager of BHG and BHGOMF. BHGOMF is permitted to invest in any investment funds of which one or more of the Brevan Howard group of affiliated entities is the manager or investment manager. At 31 December 2010 BHGOMF held 1.68% (US\$406,821,559) of the net assets of the Master Fund.

As at 31 December 2010 the Master Fund held investments in funds managed by one or more of the Brevan Howard group of affiliated entities as set out in Note 5.

13. Long-term interest-bearing subscriptions receivable

The subscriptions receivable amount of US\$135,954,877 is due from Brevan Howard Fund Limited and relates to Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares issued by the Feeder Fund. Upon issuance of these Nil and Partly Paid shares by the Feeder Fund, additional shares were issued by the Master Fund (US Dollar Class A and Sterling Class A shares), resulting in the recognition of a corresponding receivable balance.

The following table details the share transactions during the year:

	In Issue At Start of Year	Issued during the Year	Redeemed during the Year	In Issue At End of Year
Nil Paid US Dollar Class C	385,226	41,060	(198,353)	227,933
Nil Paid Sterling Class C	63,119	75,807	–	138,926
Partly Paid Sterling Class D	189,283	–	(189,283)	–

The Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares are issued to Brevan Howard Employee Benefit Trust Number 3, Brevan Howard Employee Benefit Trust Number 7, BH Partners L.P. and BH Partners 2009 LP. The Partly Paid Sterling Class D shares are issued to, or for the benefit of, Partners of BHAM.

A guarantee to pay any unmet capital calls covering the issue of the Class C shares has been given to the Feeder Fund by the Manager.

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13. Long-term interest-bearing subscriptions receivable (continued)

Accrued interest receivable in the form of a funding fee has been recognised by the Feeder Fund as follows:

Share Class	Issue Date	Redemption Date	Number of Issued Shares	Funding Fee Rate
Nil Paid US Dollar Class C	January 2008	January 2011	100,780	3.31%
Nil Paid US Dollar Class C	January 2009	January 2012	86,093	1.03%
Nil Paid US Dollar Class C	January 2010	January 2013	41,060	1.32%
Nil Paid Sterling Class C	January 2008	January 2011	31,325	4.36%
Nil Paid Sterling Class C	January 2009	January 2012	31,794	2.70%
Nil Paid Sterling Class C	January 2010	January 2013	75,807	1.85%

This funding fee, together with the long-term interest-bearing subscriptions receivable, is withheld from the redemption proceeds at the end of the term by the Feeder Fund. The Directors of the Feeder Fund have resolved to call any Nil Paid Class C shares if the prevailing NAV of such share falls below 90% of the NAV at issuance.

For the Partly Paid Sterling Class D shares, accrued interest receivable is being recognised by the Feeder Fund at a rate equal to three-month US Dollar Libor reset every quarter for the unpaid amount of the Class D shares issued in October 2006, May 2007 and February 2008, payable on redemption, and is allocated to the Master Fund. The Class D share capital is now fully paid up.

14. Investment in affiliated funds

The Master Fund has invested in a number of affiliated funds as set out in Note 5.

15. Equalisation Factor

Where Shares are subscribed for at a time when the NAV per Share is greater than the Peak NAV per Share of the relevant Class, the investor will be required to pay an amount in excess of the then current NAV per Share of that Class equal to the Relevant Percentage of the difference between the then current NAV per Share of that Class (before accrual for the Performance Fee) and the Peak NAV per Share of that Class (an "Equalisation Credit").

At the date of subscription the Equalisation Credit will equal the Performance Fee per Share accrued with respect to the other Shares of the same Class in the Master Fund (the "Maximum Equalisation Credit"). The Equalisation Credit is payable to account for the fact that the NAV per Share of that Class has been reduced to reflect an accrued Performance Fee to be borne by existing Shareholders of the same Class and serves as a credit against Performance Fees that might otherwise be payable by the Master Fund but that should not, in equity, be charged against the Shareholder making the subscription because, as to such Shares, no favourable performance has yet occurred. The Equalisation Credit ensures that all holders of Shares of the same Class have the same amount of capital at risk per Share.

The additional amount invested as the Equalisation Credit will be at risk in the Master Fund and will therefore appreciate or depreciate based on the performance of the relevant Class subsequent to the issue of the relevant Shares but will never exceed the Maximum Equalisation Credit. In the event of a decline as at any Valuation Day in the NAV per Share of those Shares, the Equalisation Credit will also be reduced by an amount equal to the Relevant Percentage of the difference between the NAV per Share (before accrual for the Performance Fee) at the date of issue and as at that Valuation Day. Any subsequent appreciation in the NAV per Share of the relevant Class will result in the recapture of any reduction in the Equalisation Credit but only to the extent of the previously reduced Equalisation Credit up to the Maximum Equalisation Credit.

At the year end the equalisation factor accrued but not crystallised was US\$28,016 while the portion that crystallised during the year represented a write-back of US\$32,627.

16. Subsequent Events

For the year ended 31 December 2010, the Master Fund and its Subsidiaries evaluated subsequent events through 24 March 2011. No material events which would require to be disclosed in the Financial Statements occurred during this period.

Notes

Notes

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Karla Bodden
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Nagi Kawkabani
Bruce Levitt
Jonas Rinné
Phil Schmitt
James Vernon (resigned 9 July 2010)
Philippe Lespinard (appointed 8 July 2010)

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