WATKINS SYNDICATE 457

ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Managed by Munich Re Underwriting Limited

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT:

Managing Agent
Munich Re Underwriting Limited is the managing agent for Syndicate 457 and is authorised and regulated by the Financial Services Authority and Lloyd's.

Directors

J H Rochman	Non-Executive Chairman
T E Artmann	Non-Executive Director
T Coskun, MSc, ACA	Director of Risk and Compliance
O J Crabtree, ACII	Joint Active Underwriter
R W R Grande, BSc, ACA, MBA, ACII, FIoD	Managing Director
N J T Gray, BSc, FCA	Finance Director
D J R Hoare, BA, ACII	Joint Active Underwriter
A C Maxwell	Claims Director
E N Noble, BSc (Econ), FCA	Non-Executive Director
M C Watkins, FCII	Group Chief Executive

Company Secretary
H J Reed

Registered Office
St. Helens, 1 Undershaft, London EC3A 8EE
Telephone: 020 7886 3900 ◆ Facsimile: 020 7886 3901
E-mail: central@mrunderwriting.com
Website: www.watkins-syndicate.co.uk

Registered Number
1328742

SYNDICATE:

Joint Active Underwriters
O J Crabtree
D J R Hoare

Bankers
Citibank N.A.
National Westminster Bank Plc

Investment Manager
Munich ERGO Asset Management GmbH ("MEAG")

Actuaries
KPMG LLP, London

Registered Auditor
KPMG Audit Plc, London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31st December 2012.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

RESULTS

The profit for calendar year 2012 is £65.5m (2011 – profit of £41.8m). The overall Syndicate result including recognised gains and losses is £65.8m (2011 – profit of £43.0m). Profits will continue to be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Syndicate's principal activity during the year remained unchanged and focussed on the transaction of general insurance and reinsurance business.

The Syndicate's key financial indicators are as follows:

	2012	2011
Gross Written Premium	£493.9m	£464.6m
Profit for the financial year	£65.5m	£41.8m
Total recognised gains and losses since last annual report	£65.8m	£43.0m
Combined Ratio	82%	90%

After a particularly volatile year in 2011 the world saw further economic and political uncertainty in 2012 with further outbreaks of political violence in the Middle East and North Africa, the US presidential elections and continuing economic problems in the Eurozone all contributing to a difficult economic climate in which to operate. Fortunately 2012 saw an easing in the frequency of catastrophe losses and this has led to an easier insurance environment. Of note was "Superstorm Sandy" which had such a devastating impact on New York and the surrounding states. This event has been described as the largest ever marine insurance loss with significant losses reported in the direct cargo, specie and yacht markets as well as the marine reinsurance market. Despite the magnitude of the loss, it is pleasing to report that the Syndicate is not expected to suffer a significant financial loss as a result. This is as a result of the Syndicate maintaining a position as a specialist in the SME market and as a niche lines insurer. As was the case in 2010 (Deepwater Horizon and other various energy losses) and with the extraordinary sequence of catastrophe events seen in 2011 the Syndicate's exposure proved to be less than the Syndicate's market share would have suggested at £5.5m before the application of the Syndicate's reinsurance protections and £2.4m net including reinsurance reinstatement premiums.

Additionally, 2012 saw the tragic loss of the "Costa Concordia" which could have proved to be a far more serious loss if the vessel had not gone aground where she did. The confusion surrounding the evacuation of the vessel suggests that a much more severe loss in terms of loss of life and bodily injury was narrowly averted. The Syndicate has been a participant on the International Group of P&I Clubs reinsurance programme for some years and therefore it was no surprise to see the Syndicate incur a loss as a result of this incident. However the Syndicate has always kept it's participation in this reinsurance contract modest and therefore this major market loss was restricted to £11.7m before the application of the Syndicate's reinsurance protections and just £5.4m net including reinsurance reinstatement premiums.

Apart from these losses, 2012 proved to be a relatively benign year in loss terms and the underlying claims trend allowed the Syndicate to outperform the expectations of the 2012 business plan.

The market has been disappointingly slow to respond to not only the impact of Superstorm Sandy, but there was little if any movement in the marine market following the catastrophe events of 2011. This suggests that the market continues to suffer from a surfeit of capital, with many underwriters looking to increase their participation in the marine market, despite the mediocre market conditions and notable increases in reinsurance costs. A broad hardening of the market was expected in late 2012, but sadly this did not occur and indeed seems to be as far away as ever. It seems that although energy rates remained reasonably firm and energy liability rates saw steady increases throughout 2012 elsewhere increases were restricted to loss making accounts. Nevertheless other than the War market where aviation war rates fell steadily and the Satellite market, rates in most sectors remained broadly stable and continued to remain above the required technical level to maintain margins.

Against the background of another year of trading in a difficult market environment it is pleasing to report a very strong underwriting performance with an overall combined ratio of 82%. In addition as the Syndicate seized opportunities emerging in the market as rates stayed higher than expected, the Syndicate has written to stamp (allowing for premium transfers and Service Company acquisition costs being deducted from written income). Adding back acquisition costs, the Syndicate has written a gross premium of £493.9m in 2012 compared to £464.6m in 2011.

The Syndicate remains focussed on the core underwriting philosophy that has served it well in recent years with an emphasis on marine insurance and facultative reinsurance. The classes of business added in 2008, Accident & Health and Terrorism, are now firmly established within the Syndicate structure and making good contributions to the performance of the Syndicate as a whole. Although other market sectors have been considered from time to time none has proved of sufficient interest to merit moving away from the Syndicate's traditional heart and no new classes of business have been added in recent years. The strategy of developing a more balanced portfolio by continuing to expand the service company network has continued. This approach avoids some of the more extreme competition that has been seen in the London market and the concept of becoming embedded as a part of regional market activities does provide access to a broader spread of business providing a less volatile portfolio over all. This process is now bearing fruit with further increases in premium in this segment of the business and the results of this strategy are clear in the 2011 results and the 2012 figures are also encouraging, even at this early stage of development. Traditional marine insurance business remains the backbone of the Syndicate account and the Syndicate is an active participant in all major classes of marine business other than Blue Water hull business. This class remains an unattractive part of the market and the Syndicate retains its policy of writing its small involvement with this business through its Service Company network.

As noted the Service Company network is continuing to have a greater influence on the overall portfolio accounting for approximately 31.3% (2011: 29.6%) of the estimated gross premium income of the Syndicate in 2012. There have been significant contributions to the overall result emanating from the service companies with Northern Marine Underwriters Ltd and Roanoke Trade Services Inc in particular adding to the portfolio.

The management of aggregate exposures remains pivotal to the creation and maintenance of a balanced and sustainable portfolio and therefore it continues to be a focus of the Syndicate's underwriting. As in previous years management pays close attention to ensuring that such exposures, particularly in the energy and terrorism accounts, are tightly controlled.

The following table provides a breakdown of gross written premiums:

	2012	**2011**
	%	**%**
Direct insurance:		
• Marine, Aviation and Transport	80.7	74.4
• Fire and Other Damage to Property	6.2	7.9
• Third Party Liability	0.3	3.3
• Accident & Health	1.7	3.8
Reinsurance	11.1	10.6
	100.0	100.0

The vast majority of the reinsurance business written by the Syndicate is derived from facultative reinsurance, service company and related operations.

The Syndicate continues to buy an extensive reinsurance programme that is designed to protect the Syndicate's largest anticipated exposure from a single risk or a multiple loss event.

The structure of the Syndicate's reinsurance programme varies slightly from year to year depending on the exposures that the Syndicate writes. The programme is subject to market forces with regard to market capacity, reinsurance terms and conditions, however, as always the reinsurance is placed with the best quality security that is available. The Syndicate continues to utilise a mixture of Lloyd's syndicates, UK authorised reinsurance companies and international reinsurance companies to ensure comprehensive reinsurance cover is in place. Some of the international companies are EU authorised insurers.

The following table provides an analysis of paid reinsurance premiums for 2011 and 2012:

	2012	**2011**
	%	%
Lloyd's Syndicates	33.6	38.5
UK Authorised Companies	16.4	9.8
EU Companies (other than UK)	30.1	38.1
Other Insurance Companies	19.9	13.6
	100.0	100.0

US HURRICANE EXPERIENCE

Overall the 2012 hurricane season proved to be relatively benign with just Superstorm Sandy and hurricane Isaac having an impact. From a Syndicate perspective Isaac had little impact and that of Sandy was far more modest than may have been expected. It is pleasing to report that the conservative approach to underwriting and reserving indicates that little significant deterioration is likely at this point.

The 2005 and 2008 years of account were also affected by hurricane activity with hurricanes Katrina, Rita and Wilma in 2005 and Gustav and Ike in 2008 having an impact on the Syndicate portfolio. Once again it is pleasing to be able to report that the process of establishing loss reserves on a policy-by-policy basis, actively investigating the circumstances of each loss and creating reserves often in advance of formal market advices has stood the Syndicate in good stead and thus far the initial estimates have proved to be robust.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment and Solvency Capital Requirement processes. Risk appetite is subsequently reviewed by the Board on a regular basis. The managing agent has a Risk Forum which meets monthly to review and update the risk register and to monitor performance against risk appetite. The Risk & Capital Committee, a sub-committee of the Board, met throughout the year to review and challenge risk management and the use of the internal model for capital calculation purposes. The Board is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Compliance Officer monitors regulatory developments and assesses the impact on Board policy. The principal risks and uncertainties facing the Syndicate are monitored in line with the following 6 risk groups, of which Insurance Risk is by far the most significant to the Syndicate:

Credit Risk

Credit risk relates to the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Key counter-parties include reinsurers, brokers, insureds, reinsureds, coverholders and investment counter-parties. The Board's policy is that the Syndicate will only reinsure with businesses that have been approved for that purpose. An additional policy of the Board is that all brokers have to be approved in advance of being permitted to produce business for the Syndicate. The Review Committee, a sub-committee of the Board, assesses and approves all new reinsurers before business is placed with them. The Review Committee is also responsible for approval and monitoring of the financial strength of all brokers.

Group Risk

Group risk is the potential of risk events, of any nature, arising in or from membership of a corporate group. Munich Re is both the owner of the managing agent and the provider of underwriting capacity to the Syndicate. Munich Re provides reinsurance capacity for a number of classes, including a quota share reinsurance for the Gulf of Mexico Energy account. During 2012 the transfer of all the Syndicate funds to Munich Re's in-house investment division was completed. Close dialogue exists with the casualty and marine division of Munich Re to discuss any necessary issues. There is a regular flow of information between the Syndicate and Munich Re.

Insurance Risk

Insurance risk, comprising underwriting risk and reserving risk, is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance premiums and liabilities. The Board manages insurance risk by agreeing its appetite for those risks annually through the business plan which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan monthly. The agency uses catastrophe modelling software to model maximum probable losses from catastrophe exposed business. The Syndicate actuary monitors reserve adequacy. A detailed independent review of all areas of underwriting is conducted on a quarterly basis.

Liquidity Risk

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. To mitigate this risk a cash flow model is produced from the Syndicate's systems and monitored by the Finance Director. The Board discusses cash flow on a quarterly basis, or more frequently as required. The Board also manages liquidity risk by investing in assets that are highly liquid and marketable.

Market Risk

Market risk is the risk that arises from fluctuations in values of or income from assets, in interest rates or in exchange rates. The Syndicate writes 79% of its insurance business in United States dollars, Euros and Canadian dollars, which gives rise to a potential exposure to currency risk while a substantial proportion of administrative and personal expenses are incurred in Sterling. The Syndicate mitigates this by adopting a policy of matching assets and liabilities in United States dollars, Euros and Canadian dollars. The investment portfolio and returns are regularly reviewed and reports are submitted to the Board.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Risks are managed through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit.

DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2012 were as follows:

T E Artmann
J A Cooper (Resigned 26 April 2012)
T Coskun
O J Crabtree
R W R Grande
N J T Gray
D J R Hoare
A C Maxwell
E N Noble
J H Rochman
M C Watkins

INVESTMENTS

Investment Policy and Managers

The investment policy of the Syndicate is to maximise the return without exposing the funds to a high degree of credit or liquidity risk. Investment in equities is not permitted at the present time.

MEAG, the in-house investment arm of Munich Re, has managed all the Syndicate funds from 1 June 2012 following transfer of the mandate for US situs and Canadian dollar funds from Bank of New York Mellon Corporation. MEAG manages Syndicate funds against benchmarks which have been generated from examination of the underlying profile of the underwriting liabilities and applying an Asset-Liability Matching model.

The Lloyd's Dollar Trust Fund, which comprises the largest proportion of funds, is managed against a composite of Barclays indices for US Treasury 1-3yr and 3-5yr, US Credit 1-5yr excluding financials and Agency 1-3yr. The US situs funds are benchmarked against US Treasury, 1-3yr and 3-5yr.

The benchmark for the Canadian dollar trust funds is a composite of Merill Lynch Government 0-1yr and 1-3yr, Provincials 1-5yr and Corporates excluding financials 0-5yr.

The Sterling and Euros are managed against benchmarks which are predominantly Government indices.

The mandate provided to MEAG provides scope for flexibility in duration about a target duration as follows:

Fund	Target duration*	Duration leeway
Lloyd's dollar trust fund	2.4 years	+/- 0.5 years
US Situs funds	3.1 years	+/- 1.5 years
Canadian funds	1.9 years	+/- 0.5 years
Euro funds	1.0 years	-
Sterling funds	1.2 years	-

*benchmark duration at 311212

For each of the managed funds the Board has set certain restrictions in terms of sector limits and individual issuer limit. In respect of credit risk no more than 7% of the total portfolio may be held in BBB holdings.

Investment Performance

The 2012 calendar year investment performance is as follows:

Currency	Fund Return %	Benchmark Return %
US dollars	1.9	1.9
Canadian dollars	1.4	1.4
Sterling	1.3	0.9
Euros	1.5	0.2

The combined 2012 calendar year investment performance is 1.7%.

The significant excess return against benchmark achieved on the Sterling and Euro funds was a result of flexibility provided under the mandate which permitted some deviation from the benchmarks permitting investment in higher yielding securities in corporate and collateralised bonds.

FUTURE DEVELOPMENTS

The Syndicate continues to work on embedding the Terrorism, Accident & Health and Cargo Bond business into the Syndicate portfolio. No new classes of business are likely to be added during the course of 2013.

Pending further discussion by the European Commission regarding the implementation of Solvency II, Lloyd's requires managing agents to further embed Solvency II as part of business as usual activities. The managing agent is now rated "green" by Lloyd's at the beginning of 2013 denoting that in its opinion the managing agent met the "principles of all tests and standards" for Pillar I and II requirements. On 1 April 2013 the Financial Services Authority will be replaced by the Financial Conduct Authority and the Prudential Regulatory Authority. Work is ongoing at the managing agent in preparation for the split and for the new regulatory structure.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2012 Account is £375m (2011 Account: £350m). All of the capacity of the Syndicate is provided by Munich Re Capital Limited ("MRCL"), an indirect subsidiary of Munich Re. The Syndicate has pre-empted for 2013 to a capacity of £425m.

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

AUDITORS

KPMG Audit Plc has signified its willingness to continue in office as the independent auditor to the Syndicate and it is the managing agent's intention to reappoint KPMG Audit Plc for a further year.

Approved by a resolution of the Board of Directors of Munich Re Underwriting Limited and signed on its behalf.

J. H. Rochman	**O.J. Crabtree, ACII**	**D.J.R. Hoare, ACII**
Chairman	Joint Active Underwriter	Joint Active Underwriter
14 March 2013	14 March 2013	14 March 2013

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate annual report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

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

- select suitable accounting policies and then apply them consistently, subject to the changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of the Syndicate annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 457

We have audited the Syndicate 457 annual accounts for the year ended 31 December 2012, as set out on pages 13 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 11, the Managing Agent is responsible for the preparation of Syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Syndicate annual accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Mark Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
14 March 2013

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	£000	2012 £000	£000	2011 £000
Earned premiums, net of reinsurance					
Gross premiums written	3		493,862		464,608
Outward reinsurance premiums			(98,949)		(87,264)
Net premiums written			394,913		377,344
Change in the provision for unearned premiums					
Gross amount	13		(73,865)		(53,180)
Reinsurers' share	13		3,539		(135)
Change in the net provision for unearned premiums	13		(70,326)		(53,315)
Earned premiums, net of reinsurance			324,587		324,029
Allocated investment return transferred from the non-technical account			8,211		8,473
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(184,671)		(174,812)	
Reinsurers' share		38,405		21,792	
Net claims paid		(146,266)		(153,020)	
Change in the provision for claims					
Gross amount	13	(14,054)		(41,403)	
Reinsurers' share	13	1,766		19,918	
Change in the net provision for claims	13	(12,288)		(21,485)	
Claims incurred, net of reinsurance			(158,554)		(174,505)
Net operating expenses	3,5		(108,761)		(116,157)
Balance on the technical account for general business			65,483		41,840

All operations are continuing.

The notes on pages 18 to 32 form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Balance on the general business technical account		65,483	41,840
Investment income	8	9,212	9,721
Unrealised gains on investments		(683)	11
Investment expenses and charges	9	(318)	(1,259)
Allocated investment return transferred to general business technical account		(8,211)	(8,473)
Profit for the financial year	14	65,483	41,840

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2012 £000	2011 £000
Profit for the financial year	14	65,483	41,840
Exchange differences on foreign currency net investment		307	1,145
Total recognised gains and losses since last annual report		65,790	42,985

The notes on pages 18 to 32 form an integral part of these annual accounts.

BALANCE SHEET – ASSETS AT 31 DECEMBER 2012

	Notes	£000	2012 £000	£000	2011 £000
Investments					
Financial investments	10		525,136		419,271
Deposits with ceding undertakings			184		186
Reinsurers' share of technical provisions					
Provision for unearned premiums	13	14,482		12,596	
Claims outstanding	13	115,415		118,790	
			129,897		131,386
Debtors					
Debtors arising out of direct insurance operations	11	165,857		154,201	
Debtors arising out of reinsurance operations		7,451		9,837	
Other debtors		8,044		6,456	
			181,352		170,494
Other assets					
Cash at bank and in hand		18,817		18,354	
Other Assets	12	67,717		52,243	
			86,534		70,597
Prepayments and accrued income					
Accrued interest		37		36	
Deferred acquisition costs		59,763		55,063	
			59,800		55,099
Total assets			982,903		847,033

The notes on pages 18 to 32 form an integral part of these annual accounts.

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2012

	Notes	£000	2012 £000	£000	2011 £000
Capital and reserves					
Members' balances	14,22		57,684		29,644
Technical provisions					
Provision for unearned premiums	13	276,491		211,796	
Claims outstanding	13	510,147		514,738	
			786,638		726,534
Creditors					
Creditors arising out of direct insurance operations	15	3,920		16,096	
Creditors arising out of reinsurance operations		42,799		39,979	
Other creditors	16	90,111		33,705	
			136,830		89,780
Accruals and deferred income			1,751		1,074
Total liabilities			982,903		847,033

The Syndicate annual accounts on pages 13 to 32 were approved by the Board of Munich Re Underwriting Limited on 14 March 2013 and were signed on its behalf by

....
J H Rochman

14 March 2013

The notes on pages 18 to 32 form an integral part of these annual accounts.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Net cash inflow from operating activities	17	171,167	110,656
Transfer to member in respect of underwriting participations	14	(37,750)	(21,983)
Open year profit release	14	-	(27,916)
		133,417	60,757
Cash flows were invested as follows:			
Increase in cash holdings	18	681	1,269
Increase in overseas deposits		8,254	5,788
Increase in net portfolio investments	19	124,482	53,700
Net investment of cashflows	19	133,417	60,757

The notes on pages 17 to 32 form an integral part of these annual accounts.

1. BASIS OF PREPARATION

These annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted.

2. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's annual accounts.

(a) Premiums Written

Premiums written comprise premiums on contracts incepted during the 12 months to 31 December, together with any adjustments made in the year to premiums relating to prior accounting periods. Premiums are shown gross of commission payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

(b) Unearned Premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(c) Reinsurance Premium Ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(d) Claims Provisions and Related Recoveries

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

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

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

2. ACCOUNTING POLICIES (continued)

(d) Claims Provisions and Related Recoveries (continued)

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

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

The directors of the managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(e) Unexpired Risks Provision

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

The provision for unexpired risks is calculated separately by class. Unexpired risk surplus and deficits are offset where in the opinion of the Directors the business classes concerned are managed together and in such cases a provision for unexpired risks is made only where there is an aggregate deficit.

(f) Acquisition Costs

Acquisition costs, which represent commission and other expenses related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(g) Foreign Currencies

The Syndicate maintains four separate currency funds of Sterling, United States dollars, Canadian dollars and Euros. Underwriting business is processed in each of these currencies.

Transactions in United States dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed. Assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Calendar year profit/loss on exchange is recognised in the profit and loss account, revaluation of reserves to year end rates of exchange are recognised within reserves.

2. ACCOUNTING POLICIES (continued)

(h) Investments

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

(i) Investment Return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

(j) Taxation

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

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

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

(k) Pension Costs

The managing agent operates in conjunction with other Group companies, a funded contributory defined benefit scheme. This scheme was closed for new members in 2000. The assets of the scheme are held separately from those of the Company, being invested with the investment subsidiary of Standard Life Assurance Company. Contributions to the scheme are charged to the Profit and Loss account so as to spread the cost of pensions over employees working lives with the Company and are included in net operating costs. The scheme was closed for future accruals on 31 December 2009. All active members transferred to the defined contribution scheme from 1 January 2010. In addition Munich Re Underwriting Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

(l) Profit Commission

The managing agent does not charge any profit commission.

3. SEGMENTAL ANALYSIS

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

2012	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000
Direct insurance:						
Marine, Aviation and Transport	398,507	326,074	(161,313)	(76,837)	(50,286)	37,638
Fire and other damage to property	30,785	29,788	(12,284)	(10,504)	(9,336)	(2,336)
Third party liability	1,174	1,094	1,726	(387)	1,667	4,100
Accident & Health	8,387	11,123	(6,175)	(5,220)	(565)	(837)
	438,853	368,079	(178,046)	(92,948)	(58,520)	38,565
Reinsurance	55,009	51,918	(20,679)	(15,813)	3,281	18,707
Total	493,862	419,997	(198,725)	(108,761)	(55,239)	57,272

2011	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000
Direct insurance:						
Marine, Aviation and Transport	345,363	306,193	(161,301)	(83,397)	(31,503)	29,992
Fire and other damage to property	36,707	32,395	(15,314)	(10,410)	(4,943)	1,728
Third party liability	15,514	15,467	(5,189)	(3,077)	(8,394)	(1,193)
Accident & Health	17,815	14,894	(6,533)	(7,500)	(1,271)	(410)
	415,399	368,949	(188,337)	(104,384)	(46,111)	30,117
Reinsurance	49,209	42,479	(27,878)	(11,773)	422	3,250
Total	464,608	411,428	(216,215)	(116,157)	(45,689)	33,367

All premiums were concluded in the UK.

**Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2012 or 2011.*

3. SEGMENTAL ANALYSIS (continued)

The geographical analysis of premiums by destination is as follows:

	2012 £000	2011 £000
UK	493,862	464,608
	493,862	464,608

4. CLAIMS

Claims Outstanding

The 2012 net technical result of £57.3m (2011: £33.4m) includes £60.5m (2011: £21.6m) of releases from reserves in respect of prior accident years.

5. NET OPERATING EXPENSES

	2012 £000	2011 £000
Acquisition costs	98,140	112,710
Change in deferred acquisition costs	(6,599)	(14,132)
Administrative expenses	19,302	17,199
(Profit)/Loss on Exchange	(2,082)	380
	108,761	116,157

Administrative expenses include:

	2012 £000	2011 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditors for:		
- half year review	16	15
- audit of annual accounts	70	65
- audit of Solvency II return	63	-
	149	80

	2012 £000	2011 £000
Non-audit remuneration		
Actuarial	62	59
Tax	5	5
	67	64

Members' standard personal expenses are included within administrative expenses.

6. STAFF NUMBERS AND COSTS

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

	2012 £000	2011 £000
Wages and salaries	8,018	7,087
Social security costs	1,213	1,173
Other pension costs	1,224	1,260
	10,455	9,520

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

	2012 Number	2011 Number
Underwriting	43	40
Claims	9	8
Other	44	42
	96	90

7. EMOLUMENTS OF THE DIRECTORS OF MUNICH RE UNDERWRITING LIMITED

Seven directors of Munich Re Underwriting Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2012 £000	2011 £000
Emoluments	2,096	2,120

The highest paid director received the following remuneration charged as a Syndicate expense:

	2012 £000	2011 £000
Emoluments	521	604

The joint active underwriters received the following remuneration charged as a Syndicate expense:

	2012 £000	2011 £000
Emoluments	605	593

8. INVESTMENT INCOME

	2012 £000	2011 £000
Income from investments	9,200	9,669
Gains on the realisation of investments	12	52
	9,212	9,721

9. INVESTMENT EXPENSES AND CHARGES

	2012 £000	2011 £000
Investment management expenses	318	356
Losses on the realisation of investments	-	903
	318	1,259

10. FINANCIAL INVESTMENTS

	Market value		Cost	
	2012 £000	2011 £000	2012 £000	2011 £000
Shares and other variable yield securities and units in unit trusts	21,664	19,165	21,664	19,165
Debt securities and other fixed income securities	503,092	395,679	502,420	396,859
Participation in investment pools	55	4,086	55	4,086
Deposits with credit institutions	325	341	325	341
	525,136	419,271	524,464	420,451

All "Debt securities and other fixed income securities" are listed. These comprise 96% of the total market value of investments.

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2012 £000	2011 £000
Due from intermediaries		
Due within one year	165,836	153,742
Due after one year	21	459
	165,857	154,201

In the prior year assets held in Singapore Pte Limited of £31,975,000 were included within amounts due from intermediaries. Following a reappraisal of the true substance of the assets and discussions with Lloyd's it was agreed that a more appropriate presentation would be to present these amounts as overseas deposits. Accordingly the prior year has been adjusted to reclassify £31,975,000 from debtors to Other assets.

12. OTHER ASSETS

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

	2012 £000	2011 £000
Illinois Deposit	857	811
Joint Asset Trust Funds	1,485	1,355
Additional Securities Limited	10,501	9,114
South African Trust Deed	233	346
Australian Trust Fund	12,169	2,050
Other Funds	3,009	6,592
Overseas Deposits	28,254	20,268
Singapore Funds	39,463	31,975
	67,717	52,243

Overseas deposits amounts are primarily held as bank balances. The Illinois Deposit is determined by reference to the Syndicate's premium income and estimated exposure to outstanding liabilities arising from business written in the State of Illinois, USA and is required to enable the Syndicate to underwrite business arising in that State.

The Joint Asset Trust Funds are determined by reference to the Syndicate's US dollar reinsurance and surplus lines premium income and are required to enable the Syndicate to write certain reinsurance and surplus lines business in the USA.

The Additional Securities Limited deposits are lodged as a condition of conducting underwriting business in Switzerland and other countries.

The South African Trust Deed is required to enable the Syndicate to underwrite business arising in South Africa. The Syndicate's contribution to the fund is calculated by reference to the amount of outstanding liabilities under South African policies.

The Australian Trust Fund is required to enable the Syndicate to underwrite business arising in Australia. The Syndicate's contribution to the fund is calculated by reference to the premium income and estimated exposure to outstanding liabilities arising from business written in Australia.

12. OTHER ASSETS (continued)

The Singapore funds relate to SIF and OIF assets held in trust in accordance with the Lloyd's Asia (Singapore policies) Instruments 2002 and Lloyd's Asia (Offshore policies) Instrument 2002. Under the terms of the standard mandate agreement all powers, authorities and discretions of the managing agent's trustees and of the managing agent are delegated to individuals who are officers of Watkins Syndicate Singapore Pte Limited, a service company of the Syndicate. In the prior year these Singapore assets had been included within debtors as amounts due from service companies. Following a reappraisal of the true substance of the assets and discussions with Lloyd's it was agreed that a more appropriate presentation would be to present these amounts as other assets. Accordingly the prior year has been adjusted to reclassify £31,975,000 from debtors to Other assets.

13. TECHNICAL PROVISIONS

	2012			2011		
	Gross Provisions £000	**Reinsurance assets £000**	**Net £000**	**Gross Provisions £000**	**Reinsurance assets £000**	**Net £000**
Claims outstanding:						
Balance at 1 January	514,738	(118,790)	395,948	467,402	(97,205)	370,197
Change in claims outstanding	14,199	(1,551)	12,648	41,403	(19,918)	21,485
Effect of movements in exchange rates	(18,790)	4,926	(13,864)	5,933	(1,667)	4,266
Balance at 31 December	510,147	(115,415)	394,732	514,738	(118,790)	395,948
Claims notified	238,720	(53,480)	185,240	240,930	(72,804)	168,126
Claims incurred but not reported	271,427	(61,935)	209,492	273,808	(45,986)	227,822
Balance at 31 December	510,147	(115,415)	394,732	514,738	(118,790)	395,948
Unearned premiums:						
Balance at 1 January	211,796	(12,596)	199,200	156,312	(12,573)	143,739
Change in unearned premiums	72,458	(2,425)	70,033	53,180	135	53,315
Effect of movements in exchange rates	(7,763)	539	(7,224)	2,304	(158)	2,146
Balance at 31 December	276,491	(14,482)	262,009	211,796	(12,596)	199,200

14. RECONCILIATION OF MEMBERS' BALANCE

	2012 £000	2011 £000
Members' balance brought forward at 1 January	29,644	36,558
Profit for the financial year	65,483	41,840
Exchange differences	307	1,145
Open year profit release	-	(27,916)
Transfer to members' personal reserve funds	(37,750)	(21,983)
Members' balance carried forward at 31 December	57,684	29,644

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

15. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2012 £000	2011 £000
Arising out of direct insurance operations		
Intermediaries	3,920	16,096
	3,920	16,096

16. OTHER CREDITORS

	2012 £000	2011 £000
Due within one year		
Amount due to Managing Agent	89,316	27,246
Amount due to service companies	793	4,557
Other	2	1,902
	90,111	33,705

17. RECONCILIATION OF OPERATING RESULT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £000	2011 £000
Operating profit on ordinary activities	65,483	41,840
Realised and unrealised gains on cash and investments including foreign exchange	19,106	(952)
Increase in net technical provisions	61,593	81,213
Increase in debtors	(23,047)	(29,139)
Increase in creditors	47,726	16,549
Exchange differences	306	1,145
Net cash inflow from operating activities	171,167	110,656

18. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2012 £000	2011 £000
Net cash inflow for the year	681	1,269
Cash flow		
Increase in overseas deposits	8,254	5,788
Deposits with ceding undertakings	(6)	71
Portfolio investments	124,488	53,629
Movement arising from cash flows	133,417	60,757
Changes in market value and exchange rates	(19,106)	952
Total movement in portfolio investments	114,311	61,709
Portfolio at 1 January	458,080	396,371
Portfolio at 31 December	572,391	458,080

19. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING (continued)

Movement in cash, portfolio investments and financing

	At 1 January 2012 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2012 £000
Cash at bank and in hand	18,354	681	(218)	18,817
Overseas deposits	20,268	8,254	(269)	28,253
Portfolio investments:				
Debt securities and other fixed income securities	418,931	124,488	(18,607)	524,812
Deposits with ceding undertakings	186	(6)	4	184
Deposits with credit institutions	341	-	(16)	325
Total portfolio investments	419,458	124,482	(18,619)	525,321
Total cash, portfolio investments and financing	458,080	133,417	(19,106)	572,391

20. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	2012 £000	2011 £000
Purchase of debt securities and other fixed income securities	(657,555)	(414,011)
Sale of debt securities and other fixed income securities	533,067	360,382
Deposit with ceding undertakings	6	(71)
Net cash outflow on portfolio investments	(124,482)	(53,700)

21. RELATED PARTIES

Münchener Rückversicherungs–Gesellschaft Aktiengesellschaft in München ('Munich Re')

Munich Re Underwriting Limited is wholly owned by Munich Re Holding Company (UK) Limited, which is wholly owned by Munich Re. The Syndicate placed a total of £20.5m (2011: £20.2m) reinsurance premium with its ultimate parent undertaking under 7 (2011: 7) different contracts for the 2012 year of account. These contracts provided the Syndicate with cover within the normal course of business and the transactions were carried out at arm's length.

During 2012 the Syndicate wrote 3 reinsurance contracts with other Munich Re group companies including American Alternative Insurance Corporation, Great Lakes Reinsurance (UK) Plc and ERGO, the primary insurer of Munich Re. The total premium on these policies was £26.7m (2011: £21.4m).

Northern Marine Underwriters Limited ('NMU')

NMU is a non-profit making service company, indirectly wholly owned by Munich Re Holding Company (UK) Limited and produces UK provincial marine business for the Syndicate under a binding authority. Business produced by NMU amounts to approximately 12.1% (2011: 11.1%) of the estimated gross premium income of the Syndicate in 2012.

On 31 December 2011 the Syndicate provided a subordinated loan of £200,000 to NMU. This was necessary to ensure the continued FSA regulatory compliance of NMU. This loan bears interest at LIBOR plus 1%.

Messrs. Coskun, Grande and Watkins are directors of NMU.

Groves, John & Westrup Limited ('GJW')

GJW is a non-profit making service company, wholly owned by Munich Re Holding Company (UK) Limited and produces predominantly UK yacht and related business exclusively for the Syndicate under a binding authority. Business produced by GJW amounts to approximately 5.3% (2011: 5.5%) of the estimated gross premium income of the Syndicate in 2012.

On 31 December 2007 the Syndicate provided a subordinated loan of £700,000 to GJW. This is a temporary interest bearing loan, necessary to ensure the continued FSA regulatory compliance of GJW. This was as a result of a new FSA regulation which disallows intangible assets for the purpose of calculating solvency. This loan bears interest at LIBOR plus 1%.

Messrs. Crabtree, Grande and Watkins are directors of GJW.

Watkins Syndicate Singapore Pte Limited ('WSS')

WSS is a non-profit making service company owned by Munich Re Holding Company (UK) Limited and produces marine business from S.E. Asia exclusively for the Syndicate under a binding authority. Business produced by WSS amounts to approximately 3.8% (2011: 4.2%) of the estimated gross premium income of the Syndicate for 2012.

Messrs. Grande and Watkins are directors of WSS.

Watkins Syndicate Hong Kong Limited ('WSHK')

WSHK is a non-profit making service company owned by Munich Re Holding Company (UK) Limited and produces marine business from S.E. Asia exclusively for the Syndicate under a binding authority. Business produced by WSHK amounts to 1.5% (2011: 1.2%) of the estimated gross premium income of the Syndicate for 2012.

Messrs. Grande and Watkins are directors of WSHK.

21. RELATED PARTIES (continued)

Watkins Syndicate Middle East Limited ('WSMEL')

WSMEL is a service company owned by Munich Re Holding Company (UK) Limited and produces marine business from the Middle East exclusively for the Syndicate under a binding authority. Business produced by WSMEL amounts to approximately 1.2% (2011: 1.0%) of the estimated gross premium income of the Syndicate in 2012.

Messrs. Coskun, Grande and Watkins are directors of WSMEL.

Roanoke Trade Services Inc. ('Roanoke USA')

Roanoke USA is a service company, indirectly wholly owned by Munich Re Holding Company (UK) Limited and produces marine business from the USA for the Syndicate under a binding authority. Business produced by Roanoke amounts to approximately 7.4% (2011: 6.6%) of the estimated gross premium income of the Syndicate in 2012.

Messrs. Grande and Watkins are directors of The Roanoke Companies Inc., the parent company of Roanoke USA.

Roanoke International Brokers Limited ('RIBL')

RIBL commenced insurance intermediation activities in October 2010. It was an appointed representative of Alwen Hough Johnson Limited, a Lloyd's Broker not connected with the Munich Re group, until 11 November 2011 when it gained full insurance broker authorisation from the FSA. RIBL conducts business both with the Syndicate and third parties. The gross brokerage income generated by RIBL in the period to 31 December 2012 was £3.3m (2011: £2.1m). A high percentage of this brokerage is from the placement of business through the above mentioned service companies.

Messrs. Gray and Watkins are directors of RIBL.

Watkins Syndicate Labuan Limited ('WSLAB')

WSLAB is a non-profit making service company owned by Munich Re Holding Company (UK) Limited and produces marine business from Malaysia exclusively for the Syndicate under a binding authority. WSLAB commenced trading 1 January 2013.

Mr. Watkins is a director of WSLAB.

22. FUNDS AT LLOYD'S

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

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

23. FOREIGN EXCHANGE RATES

The foreign currency exchange rates have been used for principal foreign currency transactions:

	2012 Year-end rate	2012 Average rate	2011 Year-end rate	2011 Average rate
Euro	1.23	1.23	1.20	1.15
US dollar	1.63	1.58	1.55	1.60
Canadian dollar	1.62	1.58	1.58	1.59

24. POST BALANCE SHEET EVENT

A distribution of £65,064,000 to the corporate member will be made in relation to the 2010 year of account (2011: £37,374,749 in relation to 2009 year of account).