WATKINS SYNDICATE 457

ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2014

Managed by Munich Re Underwriting Limited

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT:

Managing Agent
Munich Re Underwriting Limited ('MRUL') is the managing agent for Syndicate 457 (the 'Syndicate') and is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'), the PRA and Lloyd's.

Directors

E.J. Andrewartha	Non-Executive Chair
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
G Guelfand, BComm, CPA	Group Chief Financial Officer
D J R Hoare, BA, ACII	Joint Active Underwriter
A C Maxwell	Claims Director
E N Noble, BSc (Econ), FCA	Non-Executive Director
J H Rochman	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.
Royal Bank of Scotland plc
Royal Bank of Canada

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

Actuaries
KPMG LLP, London

Registered Auditor
KPMG LLP, London

The directors of the managing agent present their report for the year ended 31 December 2014.

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 2014 is £47.1m (2013 – profit of £51.8m). The overall Syndicate result including recognised gains and losses is £48.7m (2013 – profit of £52.2m). Profits will continue to be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

During 2014 the Syndicate's principal activity remained the transaction of general insurance and reinsurance business, with a particular focus on the marine, cargo and upstream energy sectors.

The Syndicate's key financial indicators are as follows:

	2014	2013
Gross Written Premium	£446.4m	£511.1m
Profit for the financial year	£47.1m	£51.8m
Total recognised gains and losses since last annual report	£48.7m	£52.2m
Combined Ratio	88%	88%

Despite the prevailing political and economic uncertainty Western economies and financial markets continued to improve during the year. This has sustained global trade volumes and general business activity. In addition 2014 proved to be another benign year from the perspective of natural catastrophe events. Although there was some large loss activity in the year, 2014 was notable for a lack of significant loss activity affecting the maritime and offshore energy industries. Whilst this was clearly good news from a claims perspective, it has further fuelled market competition driving down rates and leading to a widening of policy terms.

The tragic loss of the "Costa Concordia" was noted in the 2012 report. The Syndicate's conservative approach to reserving has meant that continued deterioration of this loss in financial terms has not adversely affected the Syndicate's net position.

2014 saw a number of significant aviation war losses including the horrific loss of Malaysian Airlines flight MH17 over the Ukraine and the prolonged attack on Tripoli airport in Libya. These losses had a significant impact on the Syndicate's aviation war portfolio, however the net effect on the portfolio was moderated to acceptable levels by the Syndicate's reinsurance programme. It was hoped that the market would take strong action after these losses to correct the weakening of rates over a number of years. Unfortunately this opportunity appears to have been missed as many underwriters aggressively sought to increase income and market share. As a consequence rate increases were much lower than expected. Whilst the Syndicate continues to write this class of business it has taken a very conservative position and has refused to support a number of high profile renewals as rates and conditions have been deemed inadequate.

As noted above, trading conditions in the marine insurance and reinsurance markets have deteriorated. More capacity entered the market in 2014 and the appetite of those already active appears insatiable. As a result rates in sectors that the Syndicate is active in have fallen and policy conditions have widened. Against this backdrop and in order to retain portfolio balance and profitability, the Syndicate began a progressive programme of disengagement from more volatile business as a part of the Syndicate's active cycle management philosophy. In 2013 the decision was taken not to chase marginal or underperforming business. In 2014 action was taken to step up this process with further disengagement, particularly in the offshore energy construction segment. Gross written income is down by 12.7% on 2013, with movements in exchange rates accounting for 40% of this reduction, with the balance reflecting the above strategy. This will mean that the current forecast for written income is below the approved business plan projection. As a direct result of the cycle management activities carried out the Syndicate's loss ratios have proven to be better than feared and broadly in line with the plan. Sadly this disciplined approach to underwriting is not necessarily mirrored elsewhere. The market continues to suffer from an excess of underwriting capital and it appears that many underwriters are still looking to increase their participation in the marine market despite market conditions deteriorating. As a largely direct insurer the only positive has been the reduction in reinsurance costs. There is no prospect of an immediate hardening of the marine market, however, careful underwriting judgement and the extensive use of cycle management techniques has enabled the Syndicate to ensure that the business written has remained at a level sufficiently above the required technical level to generate a satisfactory return. Margins have reduced, as predicted in the 2013 report, and at this stage 2015 looks to be a difficult year with the an even more pessimistic outlook for 2016. During 2014 rates fell in all of the Syndicate's classes of business (although the fall was marginal in some classes) other than marine and energy liabilities and the disappointing response from the aviation war market that occurred in the autumn of 2014.

Against this difficult trading background, it is pleasing to report a strong underwriting performance in 2014 with a combined ratio of 88%. It must be recognised that the Syndicate saw fewer good new business opportunities and as a result of shedding less well rated and more volatile business the gross written premium has fallen to £446.4m in 2014 from £511.1m in 2013.

The Syndicate management is convinced that the core underwriting philosophy that has served it well in recent years with an emphasis on marine insurance and facultative reinsurance should be maintained and that a weakening market is not the time to change strategy. Indeed 2014 saw a cementing of the Syndicate's position in this part of the market as a result of internal changes within the wider Munich Re Group ("Munich Re"). From the beginning of 2015 the Syndicate will be Munch Re's primary operation for direct (including facultative reinsurance) marine business and will assume responsibility for a number of significant portfolios in 2015. Other classes of business have been considered and will continue to be monitored; however to date none of them has proved to be of sufficient interest and thus no new classes of business have been added in recent years. The strategy of developing a more balanced portfolio by expanding the service company network is a vital part of the company policy and this process has continued with the further development of the Labuan operation and in 2015 the Syndicate has joined the Lloyd's China platform. As has been noted in previous reports this approach reflects the desire to write business that would not ordinarily reach the London market rather than attacking displaced London market business. This philosophy avoids some of the more extreme competition that has been seen in recent years and the idea of being embedded as a part of regional market activities continues to provide access to a broad spread of less volatile business helping to balance the overall portfolio. Traditional marine insurance business remains the foundation of the Syndicate portfolio. 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 important and has a strong influence on the overall portfolio accounting for approximately 24.7% (2013: 19.0%) of the estimated earned premium (gross of reinsurance) of the Syndicate.

The management of aggregate exposures remains fundamental to the creation and maintenance of a balanced and sustainable portfolio and therefore it continues to be a focus of the Syndicate's underwriting and the Syndicate has invested in allocating more internal resources to this area in 2014. 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 by regulatory class categories:

	2014 %	2013 %
Direct insurance:		
• Marine, Aviation and Transport	63	80
• Fire and Other Damage to Property	7	7
• Other	1	3
Reinsurance	29	10
	100	100

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 2013 and 2014:

	2014 %	2013 %
Lloyd's Syndicates	25.2	27.5
UK Authorised Companies	18.5	17.1
EU Companies (other than UK)	33.7	31.5
Other Insurance Companies	22.6	23.9
	100.0	100.0

PRINCIPAL RISKS AND UNCERTAINTIES

The Board sets risk appetite annually as part of the Syndicate's business planning and Solvency Capital Requirement process. Risk appetite is subsequently reviewed by the Board on a periodic 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 PRA, FCA 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, in addition to the regulatory and compliance risk 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 and coverholders have to be approved in advance of being permitted to produce business for the Syndicate. Certain Executive Directors of the Board, assess and approve all new reinsurers before business is placed with them and are also responsible for approval and monitoring of the financial strength of brokers who remain on a risk transfer basis. Credit risk on Syndicate investments is managed by a policy of investing mainly in high rated securities. At the year-end 85% of the Syndicate's "Financial Investments" was rated AA or higher or represented by Sovereign and Government Agency debt. The lowest rated security permitted, BBB rated, accounted for just 4% of the Syndicate's "Financial Investments".

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. Close dialogue exists with the casualty and marine division of Munich Re to discuss any necessary issues. Munich ERGO Asset Management GmbH ('MEAG') is an asset management company, owned by Munich Re, which manages the Syndicate investments. 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 monitors performance against the business plan on a regular basis. The agency uses catastrophe modelling software to model maximum probable losses from catastrophe exposed business. The Group 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. A sub-committee of the Board monitors liquidity on a regular basis and has an agreed minimum limit of readily realisable assets. Liquidity risk is further controlled by permitting investing only 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 both currency and duration. The fixed interest investment portfolio and returns are regularly reviewed and reports are reported 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 factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Syndicate's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Syndicate's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. 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 2014 were as follows:

E J Andrewartha
T E Artmann
T Coskun
O J Crabtree
R W R Grande
N J T Gray
G Guelfand (appointed 14 April 2014)
D J R Hoare
A C Maxwell
E N Noble
J H Rochman
M C Watkins

INVESTMENTS

Investment Policy and Managers

The Syndicates assets are managed against a "liability driven" investment approach.

MEAG, the in-house investment arm of Munich Re, is mandated by the managing agent to manage all the Syndicate funds. MEAG manages Syndicate funds against benchmarks, approved by the board, 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 and Singapore funds are managed jointly against a US Treasury 1-3yr.

The benchmark for the Canadian dollar trust funds was a composite of Merill Lynch Government 0-1yr and 1-3yr, Provincials 1-5yr and Corporates excluding financials 0-5yr. During the last quarter, following a simplification in the Canadian dollar trust fund asset allocations, the benchmark was changed to a Merrill Lynch Government 1-3 years.

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

Overall the duration of the portfolio at the year-end was 1.5 years which was in line with its benchmark. The mandate provided to MEAG permits flexibility in duration around the benchmark of -1/+0.5years.

For each of the managed funds the Board has set certain restrictions in terms of sector limits and individual issuer limit. In addition each portfolio is subject to a minimum average rating.

Investment Performance

The 2014 calendar year investment performance is as follows:

Currency	Fund Return %	Benchmark Return %
US dollars	0.9	0.8
Canadian dollars	2.1	2.1
Sterling	1.5	1.3
Euros	0.9	0.4

The combined 2014 calendar year investment performance is 0.9%.

Returns exceeded benchmark for all funds other than Canadian dollars. The positive performance on US dollars was achieved due to the tightening in credit spreads benefitting the credit overweight position. Sterling and Euro returns deviated significantly from their pure government benchmarks due to investment in higher yielding governments in the Euro fund as well as corporate/collateralised bonds.

FUTURE DEVELOPMENTS

Although the Omnibus II Directive which was passed by the European Parliament in 2014 confirmed that the Solvency II regime would be implemented from 1 January 2016, there is still much regulatory work to be done. Whilst the Level 2 measures (known as Delegated Acts) have been published they need to be adopted by the European Parliament. Additionally, the Solvency II Directive, along with the Omnibus II Directive that amended it, will have to be transposed by Member States into national law before 31 March 2015. The UK adoption of Solvency II will consist of changes to the PRA/FCA Handbooks of Rules and Guidance and amendments to UK legislation. Directive 2009/138/EC (the Solvency II framework) is a 'maximum harmonisation' Directive meaning there is limited scope to enhance the legislation in its transposition into national law.

2015 is a transition year for Lloyd's as it moves from Solvency II as a project into a business as usual environment. In essence, 2015 is a full calendar year dry run exercise in preparation for the actual start date. Apart from the Pillar 3 exercise in Q3 2015, all Solvency II reviews will be based on the submissions and processes that will exist in the live environment. Additionally the refreshed Lloyd's Minimum Standards published in July 2014 and effective 1 January 2015 form part of the new market oversight framework. Work is in hand to ensure that MRUL continues to meet the full tests and standards of Solvency II and the refreshed Lloyd's Minimum Standards.

As Munich Re's primary operation for direct (including facultative reinsurance) marine business, the Syndicate will seek to explore and develop existing and new opportunities.

The Financial Reporting Council has issued a suite of new accounting standards that replace existing UK GAAP from 1 January 2015. As part of this change the Syndicate will be adopting FRS 102. The expected impact of the change from old to new UK GAAP is not expected to result in any significant changes to the underlying accounting for its results or financial position but it is recognised that the level and detail of disclosures required will change.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2014 Account is £425m (2013 Account: £425m). All of the capacity of the Syndicate is provided by Munich Re Capital Limited ('MRCL'), an indirect subsidiary of Munich Re. The capacity of the Syndicate remains unchanged for 2015.

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 LLP 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 LLP for a further year.

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

E.J. Andrewartha
Chair
13 March 2015

D.J.R. Hoare, ACII
Joint Active Underwriter
13 March 2015

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 member of Syndicate 457

We have audited the syndicate 457 annual accounts for the year ended 31 December 2014, as set out on pages 12 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 member 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 member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's member 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 10, 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 Financial Reporting Council'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 2014 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 (Lloyds'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 LLP, Statutory Auditor
Chartered Accountants
London
13 March 2015

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	446,439	511,130
Outward reinsurance premiums		(99,819)	(93,920)
Net premiums written		346,620	417,210
Change in the provision for unearned premiums			
Gross amount	13	8,650	2,102
Reinsurers' share	13	8,645	(2,438)
Change in the net provision for unearned premiums	13	17,295	(336)
Earned premiums, net of reinsurance		363,915	416,874
Allocated investment return transferred from the non-technical account		4,685	2,779
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(225,133)	(225,483)
Reinsurers' share		31,784	46,658
Net claims paid		(193,349)	(178,825)
Change in the provision for claims			
Gross amount	13	(19,999)	(24,701)
Reinsurers' share	13	21,393	(17,082)
Change in the net provision for claims	13	1,394	(41,783)
Claims incurred, net of reinsurance		(191,955)	(220,608)
Net operating expenses	3,5	(129,588)	(147,209)
Balance on the technical account for general business		47,057	51,836

All operations are continuing.

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

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Balance on the general business technical account		47,057	51,836
Investment income	8	10,134	10,729
Investment expenses and charges	8	(5,449)	(7,950)
Allocated investment return transferred to general business technical account		(4,685)	(2,779)
Non-technical account income/charges	9	48	-
Profit for the financial year		47,105	51,836

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2014 £000	2013 £000
Profit for the financial year		47,105	51,836
Exchange differences on foreign currency net investment		1,590	385
Total recognised gains and losses since last annual report	14	48,695	52,221

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

BALANCE SHEET – ASSETS AT 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Investments			
Financial investments	10	560,756	494,426
Deposits with ceding undertakings		74	200
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	20,637	9,671
Claims outstanding	13	124,776	97,287
		145,413	106,958
Debtors			
Debtors arising out of direct insurance operations	11	168,219	168,495
Debtors arising out of reinsurance operations		11,507	19,073
Other debtors		4,513	7,521
		184,239	195,089
Other assets			
Cash at bank and in hand		9,231	35,278
Other assets	12	22,107	34,040
		31,338	69,318
Prepayments and accrued income			
Accrued interest		-	10
Deferred acquisition costs		63,430	65,967
		63,430	65,977
Total assets		985,250	931,968

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

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Capital and reserves			
Members' balances	14,22	47,028	44,842
Technical provisions			
Provision for unearned premiums	13	270,912	267,641
Claims outstanding	13	571,241	526,330
Provision for other risks and charges		3,954	-
		846,107	793,971
Creditors			
Creditors arising out of direct insurance operations	15	15,215	2,056
Creditors arising out of reinsurance operations	16	52,289	40,373
Other creditors	17	24,611	49,685
		92,115	92,114
Accruals and deferred income		-	1,041
Total liabilities		985,250	931,968

The Syndicate annual accounts on pages 12 to 32 were approved by the Board of Munich Re Underwriting Limited on 13 March 2015 and were signed on its behalf by

E. J. Andrewartha

13 March 2015

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	18	61,859	81,617
Net transfer to member in respect of underwriting participations	14	(46,509)	(65,064)
		15,350	16,553
Cash flows were invested as follows:			
Increase/(Decrease) in cash holdings	19	(25,926)	16,454
Increase/(Decrease) in overseas deposits	19	(4,527)	(3,010)
Increase in net portfolio investments	20	45,803	3,109
Net investment of cashflows	19	15,350	16,553

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. In addition to third party brokerage, acquisition costs include service company costs and a proportion of Syndicate costs including all box rent, underwriters' employment costs and an allocation of accommodation and IT costs.

(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. Exchange adjustments from translating the opening balance sheet and net income for the year in United States dollars, Canadian dollars, Euros to closing rates of exchange are dealt with in reserves and included in the Statement of total recognised gains and losses. All other foreign exchange differences are recognised in the technical account.

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. During the year and as an alternative choice to the defined contribution scheme the Company offered a Group Self Invested Pension 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:

2014	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	282,407	293,927	(175,812)	(79,161)	(28,480)	10,474
Fire and other damage to property	30,273	30,176	(12,491)	(10,755)	(4,645)	2,285
Third party liability	1,080	1,102	(451)	(391)	(82)	176
Accident & Health	5,546	6,914	(2,153)	(3,250)	(328)	1,183
	319,306	332,119	(190,907)	(93,557)	(9,091)	14,118
Reinsurance	127,133	122,970	(54,225)	(36,031)	(4,460)	28,254
Total	446,439	455,089	(245,132)	(129,588)	(37,997)	42,372

2013	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	409,825	410,100	(209,399)	(110,390)	(53,746)	36,565
Fire and other damage to property	34,610	33,217	(8)	(12,791)	(8,978)	11,440
Third party liability	1,231	1,233	(661)	(494)	(848)	(770)
Accident & Health	11,711	11,696	(6,350)	(5,181)	(593)	(428)
	457,377	456,246	(216,418)	(128,856)	(64,165)	46,807
Reinsurance	53,753	56,986	(33,767)	(18,353)	(2,616)	2,250
Total	511,130	513,232	(250,185)	(147,209)	(66,781)	49,057

All premiums are written through Lloyds and concluded in the UK.

Brokerage and commission on direct business written was £55.9m (2013: £92.4m).

**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 2014 or 2013.*

3. SEGMENTAL ANALYSIS (continued)

The geographical analysis of premiums by destination is as follows:

	2014 £000	2013 £000
UK	446,439	511,130
	446,439	511,130

4. CLAIMS

Claims Outstanding

The 2014 net technical result of £42.4m (2013: £49.1m) includes £27.7m (2013: £39.9m) of releases from reserves in respect of prior accident years.

5. NET OPERATING EXPENSES

	2014 £000	2013 £000
Acquisition costs	111,964	117,336
Change in deferred acquisition costs	(4,600)	7,421
Administrative expenses	22,323	19,799
Profit/(Loss) on Exchange	(99)	2,653
	129,588	147,209

Administrative expenses include:

	2014 £000	2013 £000
Fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	88	70
Fees payable to the Syndicate auditor and its associates for other services:		
Audit-related assurance services	64	64
Tax advisory services	5	5
Other assurance services	65	63
	222	202

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:

	2014 £000	2013 £000
Wages and salaries	9,826	8,953
Social security costs	1,445	1,272
Other pension costs	1,406	1,445
	12,677	11,670

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

	2014 Number	2013 Number
Underwriting	44	45
Claims	6	8
Other	56	48
	106	101

7. EMOLUMENTS OF THE DIRECTORS OF MUNICH RE UNDERWRITING LIMITED

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

	2014 £000	2013 £000
Emoluments	2,460	2,186
Contributions to pension scheme	98	197
	2,558	2,383

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

	2014 £000	2013 £000
Emoluments	551	536
Contributions to pension scheme	-	-
	551	536

7. EMOLUMENTS OF THE DIRECTORS OF MUNICH RE UNDERWRITING LIMITED (continued)

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

	2014 £000	2013 £000
Emoluments	787	642
Contributions to pension scheme	4	113
	791	755

8. INVESTMENT RETURN

	2014 £000	2013 £000
Investment income		
Income from investments	8,963	10,542
Gains on the realisation of investments	461	47
Unrealised gains on investments	710	140
	10,134	10,729
Investment expenses and charges		
Investment management expenses	(544)	(383)
Losses on the realisation of investments	(2,149)	(7,567)
Unrealised losses on investments	(2,756)	-
	(5,449)	(7,950)
Total investment return	4,685	2,779

9. NON-TECHNICAL ACCOUNT INCOME/CHARGES

The non-technical account income of £48,000 (2013: nil) reflects investment income earned on Funds in Syndicate deposited by MRCL into the Syndicate's Premium Trust Fund.

10. FINANCIAL INVESTMENTS

	Market value		Cost	
	2014 £000	**2013 £000**	**2014 £000**	**2013 £000**
Shares and other variable yield securities and units in unit trusts	9,772	12,344	9,772	12,344
Debt securities and other fixed income securities	547,141	478,274	548,356	478,798
Participation in investment pools	3,504	3,489	3,503	3,489
Deposits with credit institutions	339	319	339	319
	560,756	494,426	561,970	494,950

All "Debt securities and other fixed income securities" are highly liquid and marketable. These comprise 98% of the total market value of investments. Included within the market value of financial investments is accrued income of £2,326,000 (2013 £1,957,000).

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2014 £000	**2013 £000**
Due from intermediaries:		
Due within one year	165,568	168,479
Due after one year	2,651	16
	168,219	168,495

12. OTHER ASSETS

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

	2014 £000	2013 £000
Illinois Deposit	654	765
Joint Asset Trust Funds	1,458	1,173
Additional Securities Limited	6,795	7,295
South African Trust Deed	204	96
Australian Trust Fund	8,347	12,157
Other Funds	3,058	3,495
Overseas Deposits	20,516	24,981
Singapore Funds	1,591	9,059
	22,107	34,040

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.

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.

13. TECHNICAL PROVISIONS

	2014			2013		
	Gross Provisions £000	**Reinsurance assets £000**	**Net £000**	**Gross Provisions £000**	**Reinsurance assets £000**	**Net £000**
Claims outstanding:						
Balance at 1 January	526,330	(97,287)	429,043	510,147	(115,415)	394,732
Change in claims outstanding	19,999	(21,393)	(1,394)	24,701	17,082	41,783
Effect of movements in exchange rates	24,912	(6,096)	18,816	(8,518)	1,047	(7,471)
Balance at 31 December	571,241	(124,776)	446,465	526,330	(97,287)	429,043
Claims notified	260,475	(71,246)	189,229	228,670	(72,989)	155,711
Claims incurred but not reported	310,766	(53,530)	257,236	297,630	(24,298)	273,332
Balance at 31 December	571,241	(124,776)	446,465	526,330	(97,287)	429,043
Unearned premiums:						
Balance at 1 January	267,641	(9,671)	257,970	276,491	(14,482)	262,009
Change in unearned premiums	(8,650)	(8,645)	(17,295)	(2,102)	2,438	336
Effect of movements in exchange rates	11,921	(2,321)	9,600	(6,748)	2,373	(4,375)
Balance at 31 December	270,912	(20,637)	250,275	267,641	(9,671)	257,970

14. RECONCILIATION OF MEMBERS' BALANCE

	2014 £000	2013 £000
Members' balance brought forward at 1 January	44,842	57,684
Profit for the financial year	48,695	52,221
Net transfer to members' personal reserve funds	(46,509)	(65,064)
Members' balance carried forward at 31 December	47,028	44,842

The gross distribution payable to the member was £61,018,000 of which £14,509,000 was retained within the Syndicate to meet solvency requirements. Income relating to these funds retained has been included within the profit and loss account and foreign exchange gains in the statement of total recognised gains and losses.

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

	2014 £000	2013 £000
Arising out of direct insurance operations intermediaries:		
Due within one year	15,214	2,056
Due after one year	1	-
	15,215	2,056

16. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2014 £000	2013 £000
Arising out of reinsurance operations intermediaries:		
Due within one year	52,112	40,373
Due after one year	177	-
	52,289	40,373

17. OTHER CREDITORS

	2014 £000	2013 £000
Due within one year		
Amount due to Managing Agent	21,264	47,637
Amount due to service companies	3,103	2,048
Other	244	-
	24,611	49,685

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

	2014 £000	2013 £000
Operating profit on ordinary activities	47,105	51,836
Realised and unrealised gains on cash and investments including foreign exchange	(20,342)	34,059
Increase in net technical provisions	9,728	30,272
Decrease in debtors	20,865	10,299
Increase/(decrease) in creditors	2,913	(45,235)
Exchange differences	1,590	386
Net cash inflow from operating activities	61,859	81,617

The movement in "Debtors" also reflects "Prepayments and accrued income" whilst the "Creditors" movement reflects "Provisions for other risks and charges" and "Accruals and deferred income".

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

	2014 £000	2013 £000
Net cash (outflow)/inflow for the year	(25,926)	16,454
Cash flow		
Decrease in overseas deposits	(4,527)	(3,010)
(Decrease)/increase in deposits with ceding undertakings	(134)	18
Increase in portfolio investments	45,937	3,091
Movement arising from cash flows	15,350	16,553
Changes in market value and exchange rates	20,342	(34,059)
Total movement in portfolio investments	35,692	(17,506)
Portfolio at 1 January	554,885	572,391
Portfolio at 31 December	590,577	554,885

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

Movement in cash, portfolio investments and financing

	At 1 January 2014 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	35,278	(25,926)	(121)	9,231
Overseas deposits	24,981	(4,527)	62	20,516
Portfolio investments:				
Debt securities and other fixed income securities	494,107	45,937	20,373	560,417
Deposits with ceding undertakings	200	(134)	8	74
Deposits with credit institutions	319	-	20	339
Total portfolio investments	494,626	45,803	20,401	560,830
Total cash, portfolio investments and financing	554,885	15,350	20,342	590,577

20. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	2014 £000	2013 £000
Purchase of debt securities and other fixed income securities	(581,206)	(282,752)
Sale of debt securities and other fixed income securities	535,269	279,660
Deposit with ceding undertakings	134	(18)
Net cash outflow on portfolio investments	(45,803)	(3,109)

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 £19.3m (2013: £15.3m) reinsurance premium with its ultimate parent undertaking under 12 (2013: 6) different contracts for the 2014 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 2014 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 £22.6m (2013: £32.9m).

The managing agent paid licence fees of £193,000 (2013: £365,000) to Munich Re for its general ledger accounting system.

Munich Ergo Asset Management GmbH ('MEAG')

MEAG is Munich Re's asset management company. The Syndicate paid a total of £585,000 (2013 £383,000) for investment management and accounting services in 2014.

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 9.7% (2013: 7.9%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

On 31 December 2011 the Syndicate provided a subordinated loan of £200,000 to NMU. This was necessary to ensure the continued 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 4.1% (2013: 3.2%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

On 31 December 2007 the Syndicate provided a subordinated loan of £700,000 to GJW. This was necessary to ensure the continued regulatory compliance of GJW. 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 3.4% (2013: 2.4%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

Messrs. Grande and Watkins are directors of WSS.

21. RELATED PARTIES (continued)

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 0.6% (2013: 0.6%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

Messrs. Grande and Watkins are directors of WSHK.

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 1.0% (2013: 0.7%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

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

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. Business produced by WSLAB amounts to approximately 0.4% (2013 0.2%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

Mr. Watkins is a director of WSLAB.

Roanoke Group 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 USA amounts to approximately 5.7% (2013: 4.0%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2014.

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

Roanoke International Brokers Limited ('RIBL')

RIBL is an insurance broker wholly owned by Munich Re Holding Company (UK) limited. RIBL conducts business both with the Syndicate and third parties. The gross brokerage income generated by RIBL in the year ending to 31 December 2014 was £3.5m (2013: £3.8m). 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.

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'). As at 31 December 2014, the value of assets supporting FAL for the 2015 year of account is £209m. These assets are in the form of letters of credit from Munich Re. 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 PRA 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 following foreign currency exchange rates have been used for principal foreign currency transactions:

	2014 Year-end rate	2014 Average rate	2013 Year-end rate	2013 Average rate
Euro	1.29	1.24	1.20	1.18
US dollar	1.56	1.65	1.66	1.56
Canadian dollar	1.81	1.82	1.76	1.61

24. POST BALANCE SHEET EVENTS

There are no events subsequent to the date of the annual accounts and for which FRS 21 Events after the balance sheet date require adjustment or disclosure.