WATKINS SYNDICATE 457

ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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 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
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.
National Westminster Bank Plc

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

Actuaries
KPMG LLP, London

Registered Auditor
KPMG Audit Plc, London

The directors of the managing agent present their report for the year ended 31 December 2013.

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 2013 is £51.8m (2012 – profit of £65.5m). The overall Syndicate result including recognised gains and losses is £52.2m (2012 – profit of £65.8m). 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 focussed on the transaction of general insurance and reinsurance business, predominantly in the marine, cargo and upstream energy sectors.

The Syndicate's key financial indicators are as follows:

	2013	**2012**
Gross Written Premium	£511.1m	£493.9m
Profit for the financial year	£51.8m	£65.5m
Total recognised gains and losses since last annual report	£52.2m	£65.8m
Combined Ratio	88%	82%

Although political and economic uncertainty continues, the global financial markets were more stable in 2013 and indeed some parts of the world saw moderate improvements in financial terms with better than expected economic growth and this led to an increase in global trade volumes and general business activity. In addition the year proved to be benign from the perspective of natural catastrophe events insofar as there was a marked lack of activity to affect the maritime and offshore energy industries. This was clearly good news in terms of large losses affecting the market, but increased competition pushed rates lower and also led to a broadening of policy terms.

At this time last year the Syndicate management commented on the impact of "Superstorm Sandy", an event that was at the time described as the largest ever marine insurance loss. Significant losses had been reported in the direct cargo, specie and yacht markets as well as the marine reinsurance market. One year on, it seems that the market has been able to absorb the impact of this event without undue difficulties and it is pleasing to report that the initial assessment that the Syndicate was not expected to suffer a significant financial loss has been confirmed as valid.

In the 2012 report the tragic loss of the "Costa Concordia" was noted. The Syndicate's conservative approach to the reserving of this loss has meant that the 2013 result has not been affected as a result of the significant deterioration of the 100% loss figure during the first half of 2013 and the Syndicate still holds a satisfactory reserve against the loss.

As noted above, the marine insurance environment has become more competitive and, despite the relatively benign catastrophe loss environment, in order to retain the integrity of the portfolio the Syndicate deliberately chose not to chase business that was marginal or underperforming and underwriters were instructed to maintain underwriting discipline. Thus gross written income is up by just 3.5% on 2012 and this will mean that the current forecast for written income is below the approved business plan projection. To offset this deterioration, loss ratios are generally satisfactory 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 being lacklustre at best, and with notable increases to reinsurance costs in certain segments. There is no sign of a hardening of the marine market however rates held at a level sufficiently above the required technical level to generate a satisfactory return. Margins are reducing and 2014 looks to be a difficult year in many of the marine classes. During 2013 rates fell in the Energy, Terrorism (other than in regions that had been loss affected), Marine and Aviation War classes. The turn of the year saw all classes other than Marine Liability with weaker terms and even this class held up only as a result of stronger P&I terms due to the penal terms applied after the "Costa Concordia" loss.

Against this difficult trading background, it is pleasing to report a strong underwriting performance in 2013 with a combined ratio of 88%. It must be recognised that the Syndicate saw fewer good new business opportunities therefore gross written premium is little changed from 2012. After including acquisition costs, the Syndicate has written a gross premium of £511.1m in 2013 compared to £493.9m in 2012.

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. 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. This approach reflects the desire to write business that would not ordinarily reach the London market rather than attacking displaced London market business. This approach 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 23.5% (2012: 28.4%) of the estimated earned premium (net of reinsurance) of the Syndicate. There have been significant contributions to the overall result emanating from the service companies with Northern Marine Underwriters Ltd and Roanoke USA in particular adding to the portfolio.

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 2013. 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:

	2013	**2012**
	%	**%**
Direct insurance:		
• Marine, Aviation and Transport	80	81
• Fire and Other Damage to Property	7	6
• Other	3	2
Reinsurance	10	11
	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 2012 and 2013:

	2013 %	2012 %
Lloyd's Syndicates	27.5	33.6
UK Authorised Companies	17.1	16.4
EU Companies (other than UK)	31.5	30.1
Other Insurance Companies	23.9	19.9
	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. A sub-committee of the Board, assesses and approves all new reinsurers before business is placed with them. This committee is also responsible for approval and monitoring of the financial strength of all brokers. Credit risk on Syndicate investments is managed by a policy of investing mainly in high rated government issued and government backed debt including AAA security. This accounted for 65% of total Syndicate investments at the year end, with just 6% invested in BBB security.

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 monitor liquidity on a regular basis. 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 78% 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 is restricted to short duration, fixed interest portfolio. The investment portfolio and returns are regularly reviewed and reports are submitted to a sub-committee of 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 2013 were as follows:

E J Andrewartha (appointed 1 September 2013)
T E Artmann
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.

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 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 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 trust funds 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 (inc Singapore) 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	-

*reduced by 0.5 years during last quarter of 2013 to protect funds against capital loss in the event of a rise in interest rates

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 2013 calendar year investment performance is as follows:

Currency	Fund Return %	Benchmark Return %
US dollars	0.3	0.3
Canadian dollars	1.5	1.6
Sterling	0.5	0.7
Euros	0.6	0.1

The combined 2013 calendar year investment performance is 0.5%.

The significant excess return against benchmark achieved on the Euro fund 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

No new classes of business are likely to be added during the course of 2014.

With the agreement of Omnibus II in November 2013, the expectation is that the Solvency II implementation date will be January 2016. Whilst this has been the planning assumption used by Lloyd's during 2013, the increased certainty around the timetable means that Lloyd's expects to make its Lloyd's Internal Model ('LIM') approval submission to the PRA during the Spring of 2015. A key element of Lloyd's application to the PRA is syndicate compliance with Solvency II requirements. All syndicates must therefore be able to demonstrate that they have an internal model which meets the full Solvency II tests and standards by the end of 2014. MRUL's green rating against the Lloyds principles of Solvency II status was confirmed 5th February 2014. Due to the increased certainty around the Solvency II timetable MRUL must be able to demonstrate that all requirements are being met. Work is in hand to ensure the Board can confirm this by the Lloyd's deadline of 12 December 2014.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2013 Account is £425m (2012 Account: £375m). 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 2014.

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.

M.C.Watkins	**O.J. Crabtree, ACII**	**D.J.R. Hoare, ACII**
Group Chief Executive	Joint Active Underwriter	Joint Active Underwriter
14 March 2014	14 March 2014	14 March 2014

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.

We have audited the Syndicate 457 annual accounts for the year ended 31 December 2013, as set out on pages 12 to 31. 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 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 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 2013 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 2014

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	511,130	493,862
Outward reinsurance premiums		(93,920)	(98,949)
Net premiums written		417,210	394,913
Change in the provision for unearned premiums			
Gross amount	13	2,102	(73,865)
Reinsurers' share	13	(2,438)	3,539
Change in the net provision for unearned premiums	13	(336)	(70,326)
Earned premiums, net of reinsurance		416,874	324,587
Allocated investment return transferred from the non-technical account		2,779	8,211
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(225,483)	(184,671)
Reinsurers' share		46,658	38,405
Net claims paid		(178,825)	(146,266)
Change in the provision for claims			
Gross amount	13	(24,701)	(14,054)
Reinsurers' share	13	(17,082)	1,766
Change in the net provision for claims	13	(41,783)	(12,288)
Claims incurred, net of reinsurance		(220,608)	(158,554)
Net operating expenses	3,5	(147,209)	(108,761)
Balance on the technical account for general business		51,836	65,483

All operations are continuing.

The notes on pages 17 to 31 form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Balance on the general business technical account		51,836	65,483
Investment income	8	10,729	9,212
Investment expenses and charges	9	(7,950)	(1,001)
Allocated investment return transferred to general business technical account		(2,779)	(8,211)
Profit for the financial year		51,836	65,483

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2013 £000	2012 £000
Profit for the financial year		51,836	65,483
Exchange differences on foreign currency net investment		385	307
Total recognised gains and losses since last annual report	14	52,221	65,790

The notes on pages 17 to 31 form an integral part of these annual accounts.

BALANCE SHEET – ASSETS AT 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Investments			
Financial investments	10	494,426	525,136
Deposits with ceding undertakings		200	184
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	9,671	14,482
Claims outstanding	13	97,287	115,415
		106,958	129,897
Debtors			
Debtors arising out of direct insurance operations	11	168,495	165,857
Debtors arising out of reinsurance operations		19,073	7,451
Other debtors		7,521	8,044
		195,089	181,352
Other assets			
Cash at bank and in hand		35,278	18,817
Other Assets	12	34,040	67,717
		69,318	86,534
Prepayments and accrued income			
Accrued interest		10	37
Deferred acquisition costs		65,967	59,763
		65,977	59,800
Total assets		931,968	982,903

The notes on pages 17 to 31 form an integral part of these annual accounts.

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Capital and reserves			
Members' balances	14,22	44,842	57,684
Technical provisions			
Provision for unearned premiums	13	267,641	276,491
Claims outstanding	13	526,330	510,147
		793,971	786,638
Creditors			
Creditors arising out of direct insurance operations	15	2,056	3,920
Creditors arising out of reinsurance operations		40,373	42,799
Other creditors	16	49,685	90,111
		92,114	136,830
Accruals and deferred income		1,041	1,751
Total liabilities		931,968	982,903

The Syndicate annual accounts on pages 12 to 31 were approved by the Board of Munich Re Underwriting Limited on 14 March 2014 and were signed on its behalf by

Mark Watkins

M. C. Watkins

14 March 2014

The notes on pages 17 to 31 form an integral part of these annual accounts.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Net cash inflow from operating activities	17	81,617	171,167
Transfer to member in respect of underwriting participations	14	(65,064)	(37,750)
		16,553	133,417
Cash flows were invested as follows:			
Increase/(Decrease) in cash holdings	18	16,454	681
Increase/(Decrease) in overseas deposits	19	(3,010)	8,254
Increase in net portfolio investments	19	3,109	124,482
Net investment of cashflows	19	16,553	133,417

The notes on pages 17 to 31 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. 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.