# WATKINS SYNDICATE 457

ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012

**Managed by Munich Re Underwriting Limited**

# CONTENTS

## DIRECTORS AND ADMINISTRATION

### MANAGING AGENT:

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

**Directors**

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

**Company Secretary**
H J Reed

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

**Registered Number**
1328742

### SYNDICATE:

**Joint Active Underwriters**
O J Crabtree
D J R Hoare

**Bankers**
Citibank N.A.
National Westminster Bank Plc

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

**Actuaries**
KPMG LLP, London

**Registered Auditor**
KPMG Audit Plc, London

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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

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

## RESULTS

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

## PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

The Syndicate's key financial indicators are as follows:

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

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

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

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

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

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

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

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

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

The following table provides a breakdown of gross written premiums:

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

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

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

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

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

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

## US HURRICANE EXPERIENCE

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

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

## PRINCIPAL RISKS AND UNCERTAINTIES

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

**Credit Risk**

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

**Group Risk**

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

**Insurance Risk**

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

**Liquidity Risk**

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

**Market Risk**

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

**Operational Risk**

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

## DIRECTORS

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

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

## INVESTMENTS

### Investment Policy and Managers

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

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

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

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

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

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

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

*benchmark duration at 311212

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

### Investment Performance

The 2012 calendar year investment performance is as follows:

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

The combined 2012 calendar year investment performance is 1.7%.

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

## FUTURE DEVELOPMENTS

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

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

## SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

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

## DISCLOSURE OF INFORMATION TO THE AUDITORS

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

## AUDITORS

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

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

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

# STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 457

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

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

**Respective responsibilities of the Managing Agent and the auditor**

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

**Scope of the audit of the Syndicate annual accounts**

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

**Opinion on Syndicate annual accounts**

In our opinion the annual accounts:

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

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

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

**Matters on which we are required to report by exception**

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

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

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

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

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

All operations are continuing.

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

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

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

All operations are continuing.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

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

## BALANCE SHEET – ASSETS AT 31 DECEMBER 2012

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

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

## BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2012

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

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

........................................

J H Rochman

14 March 2013

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

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

## 1. BASIS OF PREPARATION

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

## 2. ACCOUNTING POLICIES

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

### (a) Premiums Written

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

### (b) Unearned Premiums

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

### (c) Reinsurance Premium Ceded

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

### (d) Claims Provisions and Related Recoveries

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

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

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