MUNICH RE SYNDICATE 457

ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Managed by Munich Re Syndicate Limited

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT:

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

Directors

L F Allen, ACII	Non-Executive Director
E J Andrewartha	Non-Executive Chair
T E Artmann	Chief Executive Officer
T J Carroll	Non-Executive Director
T Coskun, MSc, ACA	Director of Risk and Compliance
S E Gosch	Non-Executive Director
G Guelfand, BComm, CPA	Group Chief Financial Officer
D J R Hoare, BA, ACII	Chief Underwriting Officer
A C Maxwell	Group Claims Director
E N Noble, BSc (Econ), FCA	Non-Executive Director
J H Rochman	Non-Executive Director

Company Secretary
E M Hargreaves, ACII

Registered Office
St. Helens, 1 Undershaft, London EC3A 8EE
Telephone: 020 7886 3900 ◆ Facsimile: 020 7886 3901
E-mail: central@mrunderwriting.com
Website: www.munichre.com/syndicate457

Registered Number
01328742

SYNDICATE:

Chief Underwriting Officer
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 E14 5GL

Registered Auditor
KPMG LLP, London E14 5GL

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31 December 2016.

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 2016 is £43m (2015: profit of £24m). Profits will continue to be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

During 2016 the Syndicate's principal activity remained the transaction of general insurance and reinsurance business, with a particular focus on the marine, energy and specialty sectors.

The Syndicate's key financial indicators are as follows:

	2016	2015
Gross Written Premium	£356m	£436m
Profit for the financial year	£43m	£24m
Combined Ratio	91%	94%

During 2015 the marine underwriting function within Münchener Rückversicherungs–Gesellschaft Aktiengesellschaft in München ('Munich Re') was re-aligned and an in depth project was undertaken to set the managing agency and Syndicate's long term business strategy, known as Project 2020. This project covered existing classes of business and products as well as an analysis of a number of potential new classes. Activities in 2016 continued to be focused in delivering this initiative.

On 1st October 2015 Munich Re announced the re-branding of the managing agency and the Watkins Syndicate. With effect from 1st January 2016, the name of the managing agency changed to MRSL. Furthermore, the Watkins brand was replaced and MRSL became the new name for the managing agent for the Syndicate. The re-branding was the strong signal to the market that MRSL is a strategic part of Munich Re. The re-branding coincided with the enhancement of the Syndicate's position as a premier global marine, energy and specialty insurer. During 2016 this re-branding allowed the Syndicate to optimise the leveraging of the synergies which arise out of our underwriting and risk solution abilities, our unique global access to markets, the variety of distribution channels and the diverse skill sets and talent available across the entire Munich Re Group.

For the 2016 account, as part of the initiative for the Syndicate to be Munich Re's primary operation for direct (including some facultative reinsurance) marine, energy and specialty business, the Syndicate assumed responsibility for a number of portfolios. In 2016 new lines of business including Project Cargo, Contingency, Financial Lines, and Cyber were included within the Syndicate portfolio arising out of the work conducted during Project 2020. Project Cargo and Contingency started to be written by the Syndicate towards the end of 2015. Financial Lines includes a portfolio of Financial Institutions with associated Directors and Officers plus a portfolio of Professional Indemnity business. The Cyber initiative has been built on a strategy of providing risk transfer solutions to "Global 1000" clients, it is anticipated that this strategy will evolve to include mid market clients during 2017. In both Financial Lines and Cyber, the core underwriting skills involved the transfer of individuals into the Syndicate from the Munich Re.

Other classes of business are being considered and will continue to be monitored. These new lines of business represent the diversifying of the Syndicate's risk appetite as it continues its strategy of embracing a broader specialty platform.

The Syndicate has a strategy of developing a more balanced portfolio, of which the service company network is a vital part; the Syndicate has been closely involved in assisting several of the Service Companies, notably Groves, John & Westrup Limited ("GJW") and the Asia based Service Companies, in restructuring their underwriting strategy in order to achieve a stronger and more sustainable platform for profit.

This approach reflects the desire to write business that would not ordinarily reach the London market. 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.

2016 experienced an increase in natural catastrophe events. Notably the Alberta wildfires, Hurricane Matthew, and the Louisiana floods. None of these events have had a material impact on the Syndicate. However the Syndicate did have exposure to both the Jubilee field loss offshore Ghana, and the terror attack on Brussels airport.

Although the influx of capital into the global (re)insurance market slowed in 2016, there is still a very competitive trading environment. In 2016 rates in sectors that the Syndicate is active in continued to fall and policy conditions have widened. Against this backdrop and in order to retain portfolio balance and profitability, the Syndicate continued its programme of disengagement from more volatile business in 2016, particularly within the Energy, War, and Political Violence portfolios. Gross written income was down by 18% on 2015. This income reduction is the combination of portfolio disengagement, rate reductions, and low activity levels in the underlying insured industries, particularly the oil and gas sector.

The 2016 underwriting year, although broadly in line with the Syndicate plan, is producing little profit. The 2016 Financial year result is largely driven by reserve releases on old years of account, investment return, and foreign exchange movements.

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, energy, and specialty markets 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 market, however there are signs of underlying stress in the market that may herald a change in the underwriting environment in 2018.

As noted, the service company network is important and has a strong influence on the overall portfolio accounting for approximately 34% (2015: 33%) 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 invested in allocating more internal resources to this area in 2016. Management pays close attention to ensuring that such exposures, particularly in the Energy, Cyber, Cargo and Political Violence accounts, are tightly controlled.

The following table provides a breakdown of gross written premiums by regulatory class categories:

	2016 %	2015 %
Direct insurance:		
• Marine, Aviation and Transport	60	60
• Fire and Other Damage to Property	7	8
• Other	4	2
Reinsurance	29	30
	100	100

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 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 2016 and 2015:

	2016 %	2015 %
Lloyd's Syndicates	28	31
UK Authorised Companies	19	12
EU Companies (other than UK)	20	25
Other Insurance Companies	33	32
	100	100

PRINCIPAL RISKS AND UNCERTAINTIES

The Board of MRSL ('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.

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.

Credit Risk

Credit risk relates to the risk of loss if another party fails to perform its financial 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 highly rated securities. At the year-end 80% 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 per S&P, accounted for just 1% 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. Close dialogue exists with the Special and Financial Risks ('SFR') division of Munich Re to discuss any necessary issues. 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.

Liquidity Risk

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. The Executive Committee monitors liquidity on a regular basis and has an agreed minimum limit of readily realisable assets. Liquidity risk is further controlled by permitting investment 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 81% 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 controlled matching assets and liabilities in both currency and duration. The fixed interest investment portfolio and returns are regularly reviewed and 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.

Environmental Risk

On 23 June 2016 the United Kingdom voted in favour of leaving the European Union, in a referendum. The full impact of this decision is likely to be seen in the coming years. The most visible impact of the Brexit vote to date has been the weakening of Sterling. This has had the short term effect of improving the reported results in these financial statements, as the Syndicate writes a higher proportion of profitable business in US dollars.

DIRECTORS

The Directors of the managing agent who held office during the year ended 31 December 2016 were as follows:

L F Allen
E J Andrewartha
T E Artmann
TJ Carroll (appointed 1 March 2017)
T Coskun
SE Gosch (appointed 9 September 2016)
G Guelfand
D J R Hoare
A C Maxwell
E N Noble
J H Rochman
M C Watkins (Director until his death on 20 April 2016)

INVESTMENTS

Investment Policy and Managers

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

MEAG, the group asset manager of Munich Re, is mandated by the managing agent to manage all of 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 0-1 (50%), 1-3yr (20%), and US Credit 1-5yr excluding financials (30%). The US situs funds and Singapore funds are managed jointly against a US Treasury 1-3yr benchmark.

The benchmark for the Canadian dollar trust funds was a composite of FTSE CAD Money Market T-Bill Index 0-1yr and FTSE Canadian Government 1-3 years.

The Sterling and Euros trust funds are managed against benchmarks which are predominantly Government indices up to 3 years.

Overall the duration of the portfolio at the year-end was 1.5 years which compared to its benchmark duration of 1.6 years. The mandate provided to MEAG permits flexibility in duration around the benchmark of -1/+0.5 years; going forward this will be changed to +/-1 years.

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 2016 calendar year investment performance is as follows:

Currency	Fund Return %	Benchmark Return %
US dollars	1.3	1.1
Canadian dollars	0.5	0.5
Sterling	1.1	1.0
Euros	0.4	-0.1

The combined 2016 calendar year investment performance is 1.2%.

The outperformance in USD space comes from the LDTF portfolio, driven by successful duration decisions and selections in the corporate space. Sterling and Euro returns both exceeded those generated from their pure government benchmarks due to investment in higher yielding credit exposure and various governments in the Euro fund.

FUTURE DEVELOPMENTS

Lloyd's has moved the Pillar I, II and III aspects of Solvency II into business as usual. These tests and standards are reflected in the Lloyd's Minimum Standards. There are continual projects to improve and develop processes for reporting.

For the 2017 year of account the Syndicate will further develop writing Financial Lines and Cyber business which were new in 2016 year of account. The managing agent is considering a number of other classes of business.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2016 Account was £425m (2015 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 2017.

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 they ought to have taken as a director to make themselves 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 Syndicate Limited and signed on its behalf.

E J Andrewartha	**D J R Hoare, ACII**
Non-Executive Chair	Chief Underwriting Officer
20 March 2017	20 March 2017

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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. 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 and 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 financial statements of Syndicate 457 for the year ended 31 December 2016, as set out on pages 11 to 47. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 and 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 9, the managing agent's directors are responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements 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 financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the Syndicate's affairs as at 31 December 2016 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 Report of the Directors of the Managing Agent is consistent with the financial statements.

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:

- adequate accounting records have not been kept; or
- the financial statements 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
15 Canada Square
London
E14 5GL

20 March 2017

STATEMENT OF PROFIT LOSS: TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	356,238	436,114
Outward reinsurance premiums		(85,221)	(118,079)
Net premiums written		271,017	318,035
Change in the provision for unearned premiums			
Gross amount	16	66,655	17,339
Reinsurers' share	16	(9,407)	9,309
Change in the net provision for unearned premiums	16	57,248	26,648
Earned premiums, net of reinsurance		328,265	344,683
Allocated investment return transferred from the non-technical account	10	6,001	2,617
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(208,471)	(245,966)
Reinsurers' share		31,059	57,467
Net claims paid		(177,412)	(188,499)
Change in the provision for claims			
Gross amount	16	(29,419)	(17,336)
Reinsurers' share	16	58,772	22,789
Change in the net provision for claims	16	29,353	5,453
Claims incurred, net of reinsurance		(148,059)	(183,046)
Net operating expenses	7	(150,624)	(140,237)
Balance on the technical account - general business		35,583	24,017

All operations relate to continuing activities.

The notes on pages 17 to 47 form an integral part of these annual accounts.

STATEMENT OF PROFIT OR LOSS: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Balance on the technical account – general business		35,583	24,017
Investment income	10	8,216	8,085
Investment expenses and charges	10	(581)	(559)
Realised and unrealised gains on investments	10	2,384	600
Realised and unrealised losses on investments	10	(4,018)	(5,509)
Allocated investment return transferred to general business technical account	10	(6,001)	(2,617)
Non-technical account income	11	563	165
Gain/ (Loss) on foreign exchange		6,556	(119)
Profit for the financial year		42,702	24,063

All operations relate to continuing activities.

There were no recognised gains and losses in the year other than those reported in the Statement of Profit and Loss and hence no Statement of Other Comprehensive Income has been presented.

The notes on pages 17 to 47 form an integral part of these annual accounts.

BALANCE SHEET – ASSETS AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Investments			
Other financial investments	12	601,825	549,117
Deposits with ceding undertakings		91	72
		601,916	549,189
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	30,313	30,928
Claims outstanding	16	248,257	155,831
		278,570	186,759
Debtors			
Debtors arising out of direct insurance operations	13	113,176	131,325
Debtors arising out of reinsurance operations		66,402	61,247
Other debtors		6,342	6,894
		185,920	199,466
Other assets			
Cash at bank and in hand		16,481	13,447
		16,481	13,447
Prepayments and accrued income			
Deferred acquisition costs	14	67,137	68,403
		67,137	68,403
Total assets		1,150,024	1,017,264

The notes on pages 17 to 47 form an integral part of these annual accounts.

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Capital and reserves			
Members' balances		45,557	31,119
Technical provisions			
Provision for unearned premiums	16	234,953	262,380
Claims outstanding	16	744,848	612,805
Provision for other risks and charges		637	657
		980,438	875,842
Creditors			
Creditors arising out of direct insurance operations	18,19	19,269	21,007
Creditors arising out of reinsurance operations	18,20	82,455	72,737
Other creditors	18,21	21,885	16,559
Accruals and Deferred income	18	420	-
		124,029	110,303
Total liabilities and equity		1,150,024	1,017,264

The Syndicate annual accounts on pages 11 to 47 were approved by the Board of Munich Re Syndicate Limited on 20 March 2017 and were signed on its behalf by

E J Andrewartha

E J Andrewartha

20 March 2017

The notes on pages 17 to 47 form an integral part of these annual accounts.

STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Members' balance brought forward at 1 January		31,119	47,028
Profit for the financial year		42,702	24,063
Net transfer to members' personal reserve funds	22	(28,264)	(39,972)
Members' balance carried forward at 31 December		45,557	31,119

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.

The notes on pages 17 to 47 form an integral part of these annual accounts.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Net cash flows from operating activities			
Profit for the financial year		42,702	24,063
Adjustments:			
Realised and unrealised gains on cash and other financial investments including foreign exchange		(3,870)	(21,584)
Investment return		(6,564)	(2,782)
Investment income received		8,839	6,896
Movements in operating assets and liabilities:			
Increase in gross technical provisions		104,616	33,032
Increase in reinsurers' share of gross technical provisions		(91,810)	(41,346)
Decrease / (increase) in debtors		14,812	(20,201)
Increase in creditors		13,705	14,892
Acquisitions of other financial instruments		(883,833)	(417,158)
Proceeds from sale of other financial investments		907,383	459,509
(Increase) / Decrease in deposits with ceded undertakings including foreign exchange		(78,926)	2
Net cash inflow from operating activities		27,054	35,323
Cash flows from financing activities:			
Net transfer to member in respect of underwriting participations		(28,264)	(39,807)
Net cash outflow from financing activities		(28,264)	(39,807)
Net decrease in cash and cash equivalents		(1,210)	(4,484)
Cash and cash equivalents at 1 January		22,580	27,064
Cash and cash equivalents at 31 December	23	21,370	22,580

The notes on pages 17 to 47 form an integral part of these annual accounts.

1. BASIS OF PREPARATION

The Syndicate comprises a single corporate member of Lloyd's, Munich Re Capital Limited, that underwrites insurance business in the London Market.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ('FRS 102') as issued in August 2014, and Financial Reporting Standard 103 *Insurance Contracts* ('FRS 103') as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets categorised as fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pound Sterling ('GBP'), which is the syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results will differ from these estimates, and estimates along with the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Claims Reserving

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have a very significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported ('IBNR') to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. The techniques used generally involve projecting the development of claims over time from past experience, with adjustment for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 business accepted and assessments of underwriting conditions.

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

(b) Premium Estimates

The amount included in respect of premium is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries.

3. SIGNIFICANT 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) Gross Premiums Written

Gross 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 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.