

WATKINS SYNDICATE 457

**ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Managed by Munich Re Underwriting Limited

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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
.....
A C Cook	Claims Director
.....
J A Cooper, ACII	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
.....
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 Managers

Sterling and Euros - EPIC Asset Management Limited
US and Canadian Dollars – Bank of New York Mellon Corporation

DIRECTORS AND ADMINISTRATION (Continued)

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 2010.

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 2010 is £52.7m (2009 – profit of £42.2m restated). The overall Syndicate result including recognised gains and losses is £52.5m (2009 – profit of £40.4m). 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 the transaction of general insurance and reinsurance business.

The Syndicate's key financial indicators are as follows:

	2010	2009 (Restated)
Gross Written Premium	£339.3m	£366.0m
Profit for the financial year	£52.7m	£42.2m
Total recognised gains and losses since last annual report	£52.5m	£40.4m
Combined Ratio	86%	89%

2010 has seen the signs of slow recovery in the global economic position; however it is a year that has seen notable catastrophe and large loss activity. It is pleasing to be able to report that the Syndicate's exposure has been modest, aided by a benign Gulf of Mexico hurricane season. Indeed the Syndicate's exposure to the Deepwater Horizon loss was significantly less than may have been expected when looking at the Syndicate's market share of the global offshore energy insurance market. Regrettably the insurance industry is still blighted by an excess of capital and despite seeing positive movement in rates in some sectors of the market, notably the reinsurance, offshore energy (including liabilities) and terrorism markets, generally rates have continued to come under pressure in most of the parts of the market the Syndicate is active in. Nevertheless despite this continuation of the soft market, rates have held up better than anticipated in the 2010 business plan and have exceeded the required technical level. Against this background it is very encouraging to report another strong underwriting performance with an overall combined ratio of 86%. Once again premiums were lower than projected as the global economy did not match initial expectations due to a slower than expected recovery in economic activity and a deliberately cautious approach to underwriting designed to ensure bottom line profitability. Despite this positive decision to carefully manage portfolio performance premiums have remained high relative to stamp capacity and a gross premium of £339.3m was written compared to £366.0m in 2009.

The Syndicate continues to remain true to the core underwriting philosophy that has proved so effective in recent years in continuing to principally focus on marine insurance and facultative reinsurance. Of the newer classes added in 2008 the Terrorism account has flourished despite incurring a share of the losses arising out of the disturbances in Thailand in the early part of 2010. However an increasingly competitive Accident and Health market has meant that, whilst this portfolio has been embedded into the Syndicate's account, a holding position has been adopted to maintain a modest book of well understood and quantified business without aggressively seeking to compete on much of the under rated business that is circulating the market. Marine business still forms the core of the Syndicate account and it is active in all classes of marine insurance, but as Blue Water hull business is still an unattractive segment of the market, as in previous years the Syndicate has little involvement in the class and such business as there is largely restricted to the overseas service company network.

Several catastrophes have occurred in late 2010 and early 2011 most notably the earthquake in Christchurch New Zealand, Queensland floods and the devastating earthquake in Japan. The Syndicate believes that it does not have significant exposures to these events.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (Continued)

The Service Company network is beginning to play an increasingly important role in the portfolio with significant contributions to the overall result emanating from these companies with Groves, John and Westrup Ltd, Northern Marine Underwriting Ltd and Roanoke Trade Services in particular adding to the portfolio. In addition it is also pleasing to record the significant steps made by Watkins Singapore in adding a large yacht account to the portfolio.

The management of aggregate exposures remains key to building a balanced and sustainable portfolio and therefore this continues to be a focus of the Syndicate's underwriting. As in previous years management pays keen attention to ensuring that such exposures, particularly in the Energy account, remain tightly controlled.

The following table provides a breakdown of gross written premiums:

	2010	2009
	%	%
Direct insurance:		
• Marine, Aviation and Transport	83.7	81.1
• Fire and Other Damage to Property	7.5	6.1
• Third Party Liability	4.7	5.1
• Accident & Health	2.0	4.3
Reinsurance	2.1	3.4
	100.0	100.0
	100.0	100.0

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 design of the Syndicate reinsurance programme varies slightly from year to year depending on the exposures that the Syndicate writes. The programme is subject to market capacity, reinsurance terms and conditions however the reinsurance is placed with the highest quality security available. The Syndicate utilises 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 2009 and 2010.

	2010	2009
	%	%
Lloyd's Syndicates	37.7	40.8
UK Authorised Companies	8.6	10.3
EU Companies (other than UK)	47.4	46.1
Other Insurance Companies	6.3	2.8
	100.0	100.0
	100.0	100.0

US HURRICANE EXPERIENCE

As noted earlier the 2010 hurricane season proved to be benign with very little activity of significance to the insurance market. The 2005 hurricane season had a major impact on both the Syndicate and the insurance market. It is pleasing to report that the conservative approach to reserving adopted immediately after the events has paid off with little further development of the losses during 2010.

The 2008 year of account was also affected by hurricane activity with both hurricanes Gustav and Ike having a detrimental 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.

The financial impact of these hurricanes is summarised in note 4.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. 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. During the year the managing agent established a Risk & Capital Committee. The purpose of this committee, which is a sub-committee of the Board, is to provide oversight and challenge to the management of risk. 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 6 risk groups below:

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, cover holders and investment counter parties. The Board's policy is that the Syndicate will only reinsure with businesses that have been approved for that purpose. The Review Committee, a sub-committee of the Board, assesses and approves all new reinsurers before business is placed with them.

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. 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 is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance liabilities and premiums. 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 through the year. 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.

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 68% of its insurance business in United States dollars 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 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 2010 were as follows:

T E Artmann
A C Cook
J A Cooper
T Coskun
O J Crabtree
R W R Grande
N J T Gray
D J R Hoare
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.

Bank of New York Mellon Corporation manages the US and Canadian dollar funds. There are two duration benchmarks for the US dollar fund. The majority of the funds are managed against the Merrill Lynch 1 to 3 years Government/Corporates index. The maximum permitted average life is 2 years and the minimum credit quality permitted is 'A' grade as classified by Moody's and/or Standard & Poor's rating services. The benchmark for the non-hurricane related element of the US situs fund is the Merrill Lynch 1 to 10 years Government/Corporates index. The maximum permitted average life is 5 years with the same minimum credit quality as the rest of the US dollar fund. Further restrictions apply to the maximum exposure to individual non-government issuers.

The benchmark for the Resident and Non-Resident Canadian dollar trust funds is the Merrill Lynch 1 to 3 years Government Bond index. The maximum permitted average life is 2 years, and the minimum credit quality permitted is 'A' grade as classified by Moody's and/or Standard & Poor's rating services. Further restrictions apply to the maximum exposure to individual non-government issuers.

EPIC Asset Management Limited manages the Sterling and Euro funds. The Sterling benchmark is a blend of the Merrill Lynch UK Gilts 0 to 1 Years index and the Merrill Lynch UK Gilts 1-3 Years index. The maximum permitted average life is 2 years, and the minimum credit quality permitted is 'A' grade as classified by Moody's and/or Standard & Poor's rating services. Further restrictions apply to the maximum exposure to individual non-government issuers.

The benchmark for the Euro trust funds is the Merrill Lynch EMU Direct Governments 0 to 3 years Index. The maximum permitted average life is 2 years and the minimum credit quality is 'A' grade as classified by Moody's and/or Standard & Poor's rating services. Further restrictions apply to the maximum exposure to individual non-government issuers.

On 18 September 2008 the investment criteria in respect of bonds issued by financial institutions was tightened to prohibit purchase of such bonds unless they have a rating of at least A1/A+ from Moody's/Standard & Poor's and these must not be on credit watch with negative implications.

Investment Performance

The 2010 calendar year investment performance is as follows:

Currency	Fund Return	Benchmark Return
	%	%
US dollars	2.3	2.9
Canadian dollars	1.5	1.8
Sterling	1.8	1.3
Euros	0.9	0.8

The combined 2010 calendar year investment performance is 2.2%.

FUTURE DEVELOPMENTS

Three new classes of business have been introduced since 2008 being Terrorism, Accident & Health and following the acquisition of Roanoke USA, Cargo Bond business. Whilst these classes are being embedded into the Syndicate portfolio no new classes of business are likely to be added during the course of 2011.

Solvency II is a key priority for the business during 2011 with implementation scheduled for October 2012. This initiative, which stems from an EC Directive, will overhaul the capital adequacy regime for the European insurance industry. The managing agent started planning for Solvency II during 2009. Solvency II is drawing on resources from across the organisation. Some changes to the Risk Management and Governance framework have been referred to earlier with the establishment of a Risk & Capital Committee. In addition, the managing agent has developed its own internal model which will be further developed and validated during 2011, prior to seeking regulatory approval.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2010 Account is £320m (2009 Account: £300m). All of the capacity of the Syndicate is provided by Munich Re Capital Limited, an indirect subsidiary of Munich Re. The Syndicate has pre-empted for 2011 to a capacity of £350m.

DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the agency and the Syndicate's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is 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.

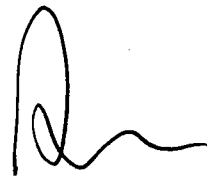
Approved by a resolution of the Board of Directors of Munich Re Underwriting Limited and signed on its behalf.



J. H. Rochman
Chairman
17 March 2011



O.J. Crabtree, ACII
Joint Active Underwriter
17 March 2011



D.J.R. Hoare, ACII
Joint Active Underwriter
17 March 2011

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The 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;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the 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, which 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the Syndicate 457 annual accounts for the year ended 31 December 2010, 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 auditors' 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 (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/apb/scope/private.cfm.

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 2010 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.

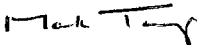
Opinion on other matter prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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 J Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
17 March 2011

**PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT –
GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	£000	2010 £000	£000	2009 (Restated) £000
Earned premiums, net of reinsurance					
Gross premiums written	3		339,295		366,032
Outward reinsurance premiums			(80,178)		(62,397)
			<hr/>		<hr/>
Net premiums written			259,117		303,635
Change in the provision for unearned premiums:					
Gross amount			44,475		(3,090)
Reinsurers' share			3,991		(3,125)
			<hr/>		<hr/>
Change in the net provision for unearned premiums			48,466		(6,215)
			<hr/>		<hr/>
Earned premiums, net of reinsurance			307,583		297,420
Allocated investment return transferred from the non-technical account					
			8,486		10,099
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(196,644)		(238,966)	
Reinsurers' share		41,467		82,087	
		<hr/>		<hr/>	
Net claims paid		(155,177)		(156,879)	
		<hr/>		<hr/>	
Change in the provision for claims					
Gross amount		14,999		58,738	
Reinsurers' share		(10,573)		(57,439)	
		<hr/>		<hr/>	
Change in the net provision for claims		4,426		1,299	
		<hr/>		<hr/>	
Claims incurred, net of reinsurance			(150,751)		(155,580)
Net operating costs	3,5		(112,658)		(109,757)
			<hr/>		<hr/>
Balance on the technical account for general business			52,660		42,182
			<hr/> <hr/>		<hr/> <hr/>

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 2010**

	Notes	2010 £000	2009 (Restated) £000
Balance on the general business technical account		52,660	42,182
Investment income	8	13,844	17,856
Unrealised gains on investments		1,272	2,218
Investment expenses and charges	9	(3,610)	(3,920)
Unrealised losses on investments		(3,019)	(6,055)
Allocated investment return transferred to general business technical account		(8,486)	(10,099)
		<u>52,660</u>	<u>42,182</u>
Profit for the financial year		<u>52,660</u>	<u>42,182</u>

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2010 £000	2009 (Restated) £000
Profit for the financial year		52,660	42,182
Exchange differences on foreign currency net investment	22	(116)	(1,796)
		<u>52,544</u>	<u>40,386</u>
Total recognised gains and losses since last annual report		<u>52,544</u>	<u>40,386</u>

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

BALANCE SHEET – ASSETS AT 31 DECEMBER 2010


	Notes	£000	2010 £000	£000	2009 £000
Investments					
Financial investments	10		364,618		352,784
Deposits with ceding undertakings					
			189		168
Reinsurers' share of technical provisions					
Provision for unearned premiums	13	12,573		8,466	
Claims outstanding	4	97,205		105,338	
			<u>109,778</u>		<u>113,804</u>
Debtors					
Debtors arising out of direct insurance operations	11	160,841		181,704	
Debtors arising out of reinsurance operations		19,236		20,240	
Other debtors		1,069		1,258	
			<u>181,147</u>		<u>203,202</u>
Other assets					
Cash at bank and in hand			17,091		8,171
Other	12		14,473		13,905
Prepayments and accrued income					
Accrued interest		84		74	
Deferred acquisition costs		40,464		53,552	
Other prepayments and accrued income		6,735		5,148	
			<u>47,282</u>		<u>58,774</u>
Total assets			<u><u>734,578</u></u>		<u><u>750,808</u></u>

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

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2010

	Notes	£000	2010 £000	£000	2009 £000
Capital and reserves					
Members' balances	14,20		36,558		12,671
Technical provisions					
Provision for unearned premiums	13	156,312		196,455	
Claims outstanding	4	467,402		472,268	
			<u>623,714</u>		<u>668,723</u>
Creditors					
Creditors arising out of direct insurance operations	15	28,097		17,891	
Creditors arising out of reinsurance operations		37,210		34,764	
Other creditors		1,052		9,619	
			<u>66,359</u>		<u>62,274</u>
Accruals and deferred income			<u>7,947</u>		<u>7,140</u>
Total liabilities			<u><u>734,578</u></u>		<u><u>750,808</u></u>

The Syndicate annual accounts on pages 12 to 31 were approved by the Board of Munich Re Underwriting Limited on 17 March 2011 and were signed on its behalf by



 J H Rochman

17 March 2011

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 2010**

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	16	46,744	71,578
Transfer to member in respect of underwriting participations		(28,657)	(94,069)
		<u>18,087</u>	<u>(22,491)</u>
Cash flows were invested as follows:			
Increase in cash holdings	17	9,038	3,778
Increase in overseas deposits		398	4,821
Increase/(decrease) in net portfolio investments	18	8,651	(31,090)
Net investment of cashflows		<u>18,087</u>	<u>(22,491)</u>

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 inception 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)

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 Sterling, United States dollars and Canadian dollars only.

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

2. ACCOUNTING POLICIES (continued)

(h) Investments

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

(i) Investment Return

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

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

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

(j) Taxation

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

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

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

(k) Pension Costs

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

(l) Profit Commission

The managing agent does not charge any profit commission.

3. SEGMENTAL ANALYSIS

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

2010	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000	Net Technical Provisions £000
Direct insurance:							
Marine, Aviation and Transport	284,031	322,681	(135,257)	(90,811)	(51,298)	45,315	(396,514)
Fire and other damage to property	25,553	19,264	(12,848)	(8,469)	(1,024)	(3,077)	(33,400)
Third party liability	15,901	23,258	(18,153)	(4,361)	5,296	6,040	(45,708)
Accident & Health	6,803	11,729	(8,546)	(7,776)	364	(4,229)	(21,810)
	<u>332,288</u>	<u>376,932</u>	<u>(174,804)</u>	<u>(111,417)</u>	<u>(46,662)</u>	<u>44,049</u>	<u>(497,432)</u>
Reinsurance	<u>7,007</u>	<u>6,838</u>	<u>(6,841)</u>	<u>(1,241)</u>	<u>1,370</u>	<u>126</u>	<u>(16,504)</u>
Total	<u><u>339,295</u></u>	<u><u>383,770</u></u>	<u><u>(181,645)</u></u>	<u><u>(112,658)</u></u>	<u><u>(45,292)</u></u>	<u><u>44,175</u></u>	<u><u>(513,936)</u></u>

2009	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses (Restated) £000	Reinsurance Balance £000	Total (Restated) £000	Net Technical Provisions £000
Direct insurance:							
Marine, Aviation and Transport	296,679	291,426	(156,333)	(86,386)	(28,939)	19,768	(469,228)
Fire and other damage to property	22,255	30,784	(11,380)	(11,452)	(4,152)	3,800	(39,114)
Third party liability	18,745	20,757	(3,575)	(3,717)	(6,724)	6,741	(18,029)
Accident & Health	15,575	13,350	(7,656)	(6,266)	(799)	(1,371)	(22,502)
	<u>353,254</u>	<u>356,317</u>	<u>(178,944)</u>	<u>(107,821)</u>	<u>(40,614)</u>	<u>28,938</u>	<u>(548,873)</u>
Reinsurance	<u>12,778</u>	<u>6,625</u>	<u>(1,284)</u>	<u>(1,935)</u>	<u>(260)</u>	<u>3,146</u>	<u>(6,046)</u>
Total	<u><u>366,032</u></u>	<u><u>362,942</u></u>	<u><u>(180,228)</u></u>	<u><u>(109,756)</u></u>	<u><u>(40,874)</u></u>	<u><u>32,084</u></u>	<u><u>(554,919)</u></u>

All premiums were concluded in the UK.

**Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2010 or 2009.*

3. **SEGMENTAL ANALYSIS (continued)**

The geographical analysis of premiums by destination is as follows:

	2010 £000	2009 £000
UK	339,295	366,032
	<u>339,295</u>	<u>366,032</u>

4. **CLAIMS**

Claims Outstanding

The 2010 net technical result of £44.2m (2009 restated: £32.1m) includes £47.8m (2009: £12.0m) of releases from reserves in respect of prior accident years.

Impact of 2005 and 2008 Windstorm Season

The 2005 Windstorms which included hurricanes Katrina, Rita and Wilma resulted in significant gross and net losses to the Syndicate. In aggregate the reported cumulative position on these hurricanes is a gross loss of US\$601.6m (2009: US\$583.7m) and net loss US\$165.5m (2009: US\$166.2m).

The current estimated ultimate costs of the 2008 Windstorms, hurricanes Gustav & Ike is shown in the table below:

	Energy US\$m	Balance of the portfolio US\$m	Estimated Ultimate Loss US\$m
Gustav	17.5	1.7	19.2
Ike	113.6	18.9	132.5
	<u> </u>	<u> </u>	<u> </u>
Gross loss	131.1	20.6	151.7
Reinsurance recoveries	105.5	17.5	123.0
	<u> </u>	<u> </u>	<u> </u>
Sub total	25.6	3.1	28.7
Reinstatement premiums	19.1	2.0	21.1
	<u> </u>	<u> </u>	<u> </u>
Net loss	44.7	5.1	49.8
	<u> </u>	<u> </u>	<u> </u>

This represents an improvement on the position reported at 31 December 2009, when the estimated ultimate loss was US\$52.5m.

These estimates do not take into account inter alia, the original premium income on the policies which have given rise to the claims arising from the hurricanes. Accordingly, the estimate is not an estimate of the Syndicate's financial position resulting from those policies.

5. NET OPERATING EXPENSES

	2010 £000	2009 (Restated) £000
Acquisition costs	78,732	95,785
Change in deferred acquisition costs	14,064	82
Administrative expenses	20,650	18,736
Profit and Loss on Exchange	(788)	(4,846)
	<u>112,658</u>	<u>109,757</u>

Administrative expenses include:

	2010 £000	2009 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditors for:		
- half year review	19	18
- audit of annual accounts	70	70
	<u>89</u>	<u>88</u>

Members' standard personal expenses are included within administrative expenses.

6. STAFF NUMBERS AND COSTS

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

	2010 £000	2009 £000
Wages and salaries	6,823	6,045
Social security costs	1,002	882
Other pension costs	6,324	5,063
	<u>14,149</u>	<u>11,990</u>

6. STAFF NUMBERS AND COSTS (continued)

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

	2010 Number	2009 Number (Restated)
Underwriting	37	38
Claims	7	7
Other	40	37
	—	—
	<u>84</u>	<u>82</u>

7. EMOLUMENTS OF THE DIRECTORS OF MUNICH RE UNDERWRITING LIMITED

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

	2010 £000	2009 £000
Emoluments	1,914	1,761
	<u>1,914</u>	<u>1,761</u>

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

	2010 £000	2009 £000
Emoluments	589	467
	<u>589</u>	<u>467</u>

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

	2010 £000	2009 £000
Emoluments	533	539
	<u>533</u>	<u>539</u>

8. INVESTMENT INCOME

	2010 £000	2009 £000
Income from investments	13,590	17,020
Gains on the realisation of investments	254	836
	—	—
	<u>13,844</u>	<u>17,856</u>

9. INVESTMENT EXPENSES AND CHARGES

	2010	2009
	£000	£000
Investment management expenses	402	408
Losses on the realisation of investments	3,208	3,512
	<u> </u>	<u> </u>
	3,610	3,920
	<u> </u>	<u> </u>

10. FINANCIAL INVESTMENTS

	Market value		Cost	
	2010	2009	2010	2009
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	15,336	4,205	15,336	4,205
Debt securities and other fixed income securities	347,258	347,628	347,065	344,173
Participation in investment pools	1,847	778	1,847	778
Deposits with credit institutions	177	173	177	173
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	364,618	352,784	364,425	349,329
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

All "Debt securities and other fixed income securities" are listed. These comprise 95% of the total market value of investments.

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2010	2009
	£000	£000
Due from intermediaries		
Due within one year	160,738	181,699
Due after one year	103	5
	<u> </u>	<u> </u>
	160,841	181,704
	<u> </u>	<u> </u>

12. OTHER ASSETS

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

	2010	2009
	£000	£000
Illinois Deposit	856	792
Joint Asset Trust Funds	1,314	1,456
Additional Securities Limited	7,998	7,416
South African Trust Deed	347	904
Australian Trust Fund	1,528	2,074
Other Funds	2,430	1,263
	<hr/>	<hr/>
	14,473	13,905
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

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

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

13. TECHNICAL PROVISIONS

	2010			2009		
	Gross Provisions £000	Reinsurance assets £000	Net £000	Gross Provisions £000	Reinsurance assets £000	Net £000
Claims outstanding:						
Balance at 1 January	472,268	(105,388)	366,930	580,315	(178,478)	401,837
Change in claims outstanding	(14,799)	10,429	(4,370)	(56,914)	56,031	(883)
Effect of movements in exchange rates	9,932	(2,296)	7,636	(51,133)	17,109	(34,024)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	467,402	(97,205)	370,197	472,268	(105,338)	366,930
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Claims notified	211,559	(48,281)	163,278	254,789	(66,172)	188,617
Claims incurred but not reported	255,843	(48,924)	206,919	217,479	(39,166)	178,313
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	467,402	(97,205)	370,197	472,268	(105,338)	366,930
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Unearned premiums:						
Balance at 1 January	196,455	(8,466)	187,989	208,823	(12,546)	196,277
Change in unearned premiums	(44,475)	(3,991)	(48,466)	(3,090)	(3,125)	(6,215)
Effect of movements in exchange rates	4,332	(116)	4,216	(9,278)	7,205	(2,073)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	156,312	(12,573)	143,739	196,455	(8,466)	187,989
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

14. RECONCILIATION OF MEMBERS' BALANCE

	2010 £000	2009 (Restated) £000
Members' balance brought forward at 1 January	12,671	66,354
Profit for the financial year	52,660	42,182
Exchange differences	(116)	(1,796)
Transfer to members' personal reserve funds	(28,657)	(94,069)
	<hr/>	<hr/>
Members' balance carried forward at 31 December	36,558	12,671
	<hr/>	<hr/>

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

15. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2010	2009
	£000	£000
Arising out of direct insurance operations		
Intermediaries	28,097	17,891
	<u>28,097</u>	<u>17,891</u>

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

	2010	2009
	£000	(Restated)
		£000
Operating profit on ordinary activities	52,660	42,182
Realised and unrealised gains on cash and investments including foreign exchange	(3,256)	43,650
Decrease in net technical provisions	(40,984)	(43,194)
Decrease in debtors	33,547	32,237
Increase in creditors	4,893	(1,501)
Exchange differences	(116)	(1,796)
	<u>46,744</u>	<u>71,578</u>

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

	2010	2009
	£000	£000
Net cash inflow for the year	9,038	3,778
Cash flow		
Increase in overseas deposits	398	4,821
Deposits with ceding undertakings	18	(140)
Portfolio investments	8,633	(30,950)
	<hr/>	<hr/>
Movement arising from cash flows	18,087	(22,491)
Changes in market value and exchange rates	3,256	(43,650)
	<hr/>	<hr/>
Total movement in portfolio investments	21,343	(66,141)
Portfolio at 1 January	375,028	441,169
	<hr/>	<hr/>
Portfolio at 31 December	396,371	375,028
	<hr/> <hr/>	<hr/> <hr/>

Movement in cash, portfolio investments and financing

	At		Changes to	At 31
	1 January	Cash	market	December
	2010	flow	value and	2010
	£000	£000	value and	£000
			currencies	
			£000	
Cash at bank and in hand	8,171	9,038	(118)	17,091
Overseas deposits	13,905	398	170	14,473
Portfolio investments:				
Debt securities and other fixed income securities	352,611	8,633	3,197	364,441
Deposits with ceding undertakings	168	18	3	189
Deposits with credit institutions	173	-	4	177
	<hr/>	<hr/>	<hr/>	<hr/>
Total portfolio investments	352,952	8,651	3,204	364,807
	<hr/>	<hr/>	<hr/>	<hr/>
Total cash, portfolio investments and financing	375,028	18,087	3,256	396,371
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

18. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	2010	2009
	£000	£000
Purchase of debt securities and other fixed income securities	(280,839)	(186,891)
Sale of debt securities and other fixed income securities	272,206	217,841
Deposit with ceding undertakings	(18)	140
	<hr/>	<hr/>
Net cash outflow on portfolio investments	(8,651)	31,090
	<hr/> <hr/>	<hr/> <hr/>

19. RELATED PARTIES

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

Munich Re Underwriting Limited is wholly owned by Munich Re Holding Company (UK) Limited, which is wholly owned by Munich Re. The Syndicate placed a total of £17.8m (2009: £32.8m) reinsurance premium with its ultimate parent undertaking under 7 (2009: 11) different contracts for the 2010 year of account. These contracts provided the Syndicate with cover within the normal course of business and the transactions were carried out at arms length.

Beaufort Underwriting Agency Limited ("Beaufort") which is the Lloyd's managing agent for Syndicate 318 is also wholly owned by Munich Re. During the year the Syndicate placed 1 facultative reinsurance contract on which Syndicate 318 wrote a line of 100%. The total premium on this reinsurance amounted to £31,800 (2009: £31,000). This transaction which provides the Syndicate with cover within the normal course of business was carried out at arms length.

Northern Marine Underwriters Limited ('NMU')

NMU is a non-profit making service company, indirectly wholly owned by Munich Re Holding Company (UK) Limited and produces UK provincial marine business exclusively for the Syndicate under a binding authority. Business produced by NMU amounts to approximately 11.5% (2009: 10.4%) of the estimated gross premium income of the Syndicate in 2010.

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

Groves, John & Westrup Limited ('GJW')

GJW is a non-profit making service company, wholly owned by Munich Re Holding Company (UK) Limited and produces predominantly UK yacht and related business exclusively for the Syndicate under a binding authority. Business produced by GJW amounts to approximately 6.3 % (2009: 6.6%) of the estimated gross premium income of the Syndicate in 2010.

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

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

19. RELATED PARTIES (continued)

Watkins Syndicate Singapore Pte Limited ('WSS')

WSS is a non-profit making service company owned by Munich Re Holding Company (UK) Limited and produces marine business from S.E. Asia exclusively for the Syndicate under a binding authority. Business produced by WSS amounts to approximately 3.7% (2009: 4.1%) of the estimated gross premium income of the Syndicate for 2010.

Messrs. Grande and Watkins are directors of WSS.

Watkins Syndicate Hong Kong Limited ('WSHK')

WSHK is a non-profit making service company owned by Munich Re Holding Company (UK) Limited and produces marine business from S.E. Asia exclusively for the Syndicate under a binding authority. Business produced by WSHK amounts to 1.4% (2009: 1.1%) of the estimated gross premium income of the Syndicate for 2010.

Messrs. Grande and Watkins are directors of WSHK.

Watkins Syndicate Middle East Limited ('WSMEL')

WSMEL is a service company owned by Munich Re Holding Company (UK) Limited and produces marine business from the Middle East exclusively for the Syndicate under a binding authority. Business produced by WSMEL amounts to approximately 1.3% (2009: 1.2%) of the estimated gross premium income of the Syndicate in 2010.

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

Roanoke Trade Services Inc. ('Roanoke USA')

Roanoke USA is a service company, indirectly wholly owned by Munich Re Holding Company (UK) Limited and produces marine business from the USA for the Syndicate under a binding authority. Business produced by Roanoke amounts to approximately 6.6% (2009: 4.7%) of the estimated gross premium income of the Syndicate in 2010.

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

Roanoke International Brokers Limited ('RIBL')

RIBL, previously named Watkins Marine Services Limited, commenced insurance intermediation activities in October 2010. It is an appointed representative of Alwen Hough Johnson Limited, a Lloyd's Broker not connected with the Munich Re group. RIBL conducts business both with the Syndicate and third parties. The gross brokerage income generated by RIBL in the period to 31 December 2010 was £156,000. The majority of this brokerage is from the placement of service company business.

Messrs. Gray and Watkins are directors of RIBL.

20. FUNDS AT LLOYD'S

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

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

21. FOREIGN EXCHANGE RATES

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

	2010 Year-end rate	2010 Average rate	2009 Year-end rate	2009 Average rate
Euro	1.17	1.17	1.13	1.12
US dollar	1.57	1.55	1.61	1.57
Canadian dollar	1.56	1.59	1.69	1.78

22. PRIOR YEAR ADJUSTMENT

With effect from 1 January 2010 the Syndicate changed its accounting policy for foreign exchange. This is detailed in Accounting Policies note 2 (g). Previously all foreign exchange transactions were reported as part of the Statement of Total Recognised Gains and Losses. Calendar year profit/loss on exchange is recognised in the profit and loss account within net operating costs. Exchange differences arising on the retranslation of opening balances to closing rates of exchange together with the differences arising on the average to closing rates of exchange adjustments are taken directly to members' balances through the statement of total recognised gains and losses.

The impact of this change in accounting policy is as noted below:

	As originally stated £'000	Restated £'000	Net Change £'000
Net operating costs	(114,603)	(109,757)	4,846
Exchange difference on foreign net investment currency	3,050	(1,796)	(4,846)

The impact on the reported "Profit for the financial year" is as follows:

Profit for the financial year	37,336	42,182	4,846
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The total reported recognised gains and losses remain unchanged.

This change in accounting policy has no impact on the reported net assets of the Syndicate.

It has been decided that this change in accounting policy will provide a fairer presentation of the reported foreign exchange transactions.