

WATKINS SYNDICATE 457

**ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

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	Director
.....
J A Cooper, ACII	Non-Executive Director
.....
T Coskun, MSc, ACA	Compliance Officer and Company Secretary
.....
O J Crabtree, ACII	Joint Active Underwriter
.....
R W R Grande, BSc, ACA, MBA, ACII, FIoD	Managing Director
.....
N J T Gray, BSc, ACA	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

T Coskun, MSc, ACA

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.

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 Auditors

Ernst & Young LLP, London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31st December 2008.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

RESULTS

The profit for calendar year 2008 is £15.4m (2007 – profit of £33.7m). The overall Syndicate result including recognised gains and losses is £31.3m (2007 – profit of £34.6m). 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:

	2008	2007
Gross Written Premium	£333.3m	£309.3m
Profit for the financial year	£15.4m	£33.7m
Total recognised gains and losses since last annual report	£31.3m	£34.6m
Combined Ratio	100%	92%

Given a very volatile year with a deteriorating economic climate creating a difficult investment climate, weaker underwriting conditions and a year of notable windstorm activity it is pleasing to be able to report a solid financial return. Although rating levels weakened steadily in most classes during the year, in general policy conditions remained broadly stable. Overall premium remained above technical levels and this has allowed the Syndicate to produce a good financial result with a combined ratio of 100%. Premium volumes remained high relative to stamp capacity and a gross premium of £333.3m was written compared to £309.3m in 2007.

The Syndicate retained the core underwriting philosophy of recent years with a focus on marine insurance and facultative reinsurance however there have been some changes in the portfolio reflecting a desire to enhance the underwriting base of the Syndicate. As a result highly respected underwriters have been recruited to lead new teams specialising in Accident & Health and Terrorism insurance. These initiatives have generated modest premiums and are being managed in a prudent and controlled manner to ensure that the Syndicate remains balanced and stable. The Syndicate is involved in all classes of marine insurance business although the Syndicate's exposure to the Blue water hull market is very restricted.

A major highlight of 2008 was the acquisition and integration of Roanoke Trade Services Inc. as a new wholly aligned Service Company. This operation is a major member in the traditional US cargo and transport insurance market. In addition to a sophisticated team and an extensive marketing network the operation is a major producer of insurance in respect cargo and transport bonds. This is a new class for the Syndicate with proven profitable track record.

Aggregate exposures remain a key focus of the Syndicate's underwriting and as in previous years management pays keen attention to ensuring that such exposures, particularly in the energy account, remain tightly controlled.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

The following table provides a breakdown of gross written premiums:

Direct insurance:	2008	2007
	%	%
• Marine, Aviation and Transport	84.7	88.3
• Fire and Other Damage to Property	4.7	2.9
• Third Party Liability	5.6	6.2
• Accident & Health	4.0	-
Reinsurance	1.0	2.6
	<hr/>	<hr/>
	100.0	100.0
	<hr/>	<hr/>

The Syndicate has always bought an extensive reinsurance programme that is designed to protect the largest anticipated exposure from a single risk or a multiple loss event and this practice continues.

The design of the Syndicate reinsurance 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 2007 and 2008.

	2008	2007
	%	%
Lloyd's Syndicates	56.4	51.2
UK Authorised Companies	16.6	17.0
EU Companies (other than UK)	22.3	25.4
Other Insurance Companies	4.7	6.4
	<hr/>	<hr/>
	100.0	100.0
	<hr/>	<hr/>

HURRICANE EXPERIENCE

As noted in previous reports the 2005 hurricane season had a major impact on the insurance market and the financial impact on the Syndicate is summarised in Note 4. It is pleasing to note that during 2008 the total amount of these reported losses from the hurricanes reduced slightly.

Disappointingly the 2008 year of account has been affected by both hurricanes Gustav and Ike. As with previous storms the Syndicate has established loss reserves on a policy-by-policy basis and it is pleasing to report that thus far the initial estimates have proved to be robust.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Board sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. The managing agent has established a Risk Committee which meets monthly to review and update the risk register and to monitor performance against risk appetite. The managing agent is required to comply with the requirements of the Financial Services Authority, Lloyd's and overseas regulators, particularly in respect of US situs business. The principal risks and uncertainties facing the Syndicate are monitored in line with the 6 risk groups identified by the Financial Services Authority.

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.

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 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.

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.

Group Risk

Group risk is the potential of risk events, of any nature, arising in or from membership of a corporate group. Close dialogue exists with the casualty and marine division of Munich Reinsurance Company to discuss any necessary issues. There is a regular flow of information between the Syndicate and Munich Reinsurance Company.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2008 were as follows:

T E Artmann
A C Cook
J A Cooper
T Coskun
O J Crabtree
W F Goodier (resigned 22 May 2008)
R W R Grande
N J T Gray
D J R Hoare
E N Noble (appointed 15 April 2008)
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. The benchmark for the US dollar funds during 2008 was the Merrill Lynch 1 to 3 years Government/Corporates index. The maximum permitted average life is 3 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 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 funds. The Sterling benchmark is a blend of the Merrill Lynch Constant Maturity 2 months Sterling LIBID index (55%) and the Merrill Lynch 1 to 3 Years Gilt Index (45%). 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.

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 2008 calendar year investment performance is as follows:

Currency	Fund Return	Benchmark Return
	%	%
US dollars	5.5	5.3
Canadian dollars	6.8	8.2
Sterling	3.3	7.6

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

FUTURE DEVELOPMENTS

The Syndicate will continue to transact the current classes of general insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

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 he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2008 Account is £260m (2007 Account: £260m). All of the capacity of the Syndicate is provided by Munich Re Capital Limited, an indirect subsidiary of Munich Re.

AUDITORS

Ernst & Young 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 Ernst & Young LLP for a further year.

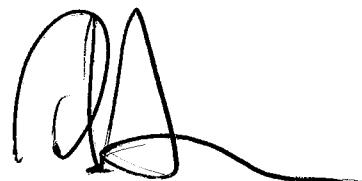
Approved by a resolution of the Board of Directors of Munich Re Underwriting Limited and signed on its behalf.



J. H. Rochman
Chairman
12 March 2009



O.J. Crabtree, ACII
Joint Active Underwriter
12 March 2009



D.J.R. Hoare, ACII
Joint Active Underwriter
12 March 2009

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 2004 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:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. 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 2004 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 457

We have audited the syndicate's annual accounts for the year ended 31 December 2008, which comprise Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 19. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them 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 Auditors

The managing agent's responsibilities for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Managing Agent's Responsibilities.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the annual accounts give a true and fair view and have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether in our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts.

In addition we report to you if, in our opinion, the managing agent in respect of the syndicate has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of directors of the managing agent and other transactions is not disclosed.

We read the Report of the Directors of the Managing Agent and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SYNDICATE 457 (continued)**

Opinion

In our opinion:

- the annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2008 and of its profit for the year then ended;
- the annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
12 March 2009

**PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT –
GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	£000	2008 £000	£000	2007 £000
Earned premiums, net of reinsurance					
Gross premiums written	3		333,285		309,335
Outward reinsurance premiums			(69,982)		(42,230)
Net premiums written			263,303		267,105
Change in the provision for unearned premiums:					
Gross amount			(19,209)		(12,977)
Reinsurers' share			262		4,944
Change in the net provision for unearned premiums			(18,947)		(8,033)
Earned premiums, net of reinsurance					
			244,356		259,072
Allocated investment return transferred from the non-technical account					
			15,639		14,738
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(151,189)		(191,962)	
Reinsurers' share		24,925		89,271	
Net claims paid		(126,264)		(102,691)	
Change in the provision for claims					
Gross amount		(104,687)		18,295	
Reinsurers' share		84,705		(67,714)	
Change in the net provision for claims		(19,982)		(49,419)	
Claims incurred, net of reinsurance					
			(146,246)		(152,110)
Net operating costs					
	3,5		(98,380)		(88,047)
Balance on the technical account for general business					
			15,369		33,653

All operations are continuing.

**PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	2008 £000	2007 £000
Balance on the general business technical account		15,369	33,653
Investment income	8	15,888	12,086
Unrealised gains on investments		6,334	3,314
Investment expenses and charges	9	(656)	(388)
Unrealised losses on investments		(5,927)	(274)
Allocated investment return transferred to general business technical account		(15,639)	(14,738)
Profit for the financial year		<u>15,369</u>	<u>33,653</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2008 £000	2007 £000
Profit for the financial year		15,369	33,653
Exchange differences on foreign currency net investment		15,946	977
Total recognised gains and losses since last annual report		<u>31,315</u>	<u>34,630</u>

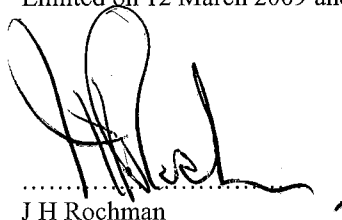
BALANCE SHEET – ASSETS AT 31 DECEMBER 2008

	Notes	£000	2008 £000	£000	2007 £000
Investments					
Financial investments	10		426,960		235,929
Deposits with ceding undertakings					
			344		320
Reinsurers' share of technical provisions					
Provision for unearned premiums		12,546		9,543	
Claims outstanding	4	178,478		54,477	
			191,024		64,020
Debtors					
Debtors arising out of direct insurance operations	11	215,352		142,584	
Debtors arising out of reinsurance operations		15,014		34,709	
Other debtors		1,689		1,264	
			232,055		178,557
Other assets					
Cash at bank and in hand			4,562		990
Other	12		9,303		8,385
Prepayments and accrued income					
Accrued interest		246		169	
Deferred acquisition costs		57,154		37,482	
Other prepayments and accrued income		4,758		5,632	
			62,158		43,283
Total assets			926,406		531,484

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2008

	Notes	£000	2008 £000	£000	2007 £000
Capital and reserves					
Members' balances	13,19		66,354		10,167
Technical provisions					
Provision for unearned premiums		208,822		148,767	
Claims outstanding	4	580,315		346,715	
			<u>789,137</u>		<u>495,482</u>
Creditors					
Creditors arising out of direct insurance operations	14	12,897		7,861	
Creditors arising out of reinsurance operations		50,618		11,745	
Other creditors		3,052		4,573	
			<u>66,567</u>		<u>24,179</u>
Accruals and deferred income			4,348		1,656
			<u>926,406</u>		<u>531,484</u>
Total liabilities			<u><u>926,406</u></u>		<u><u>531,484</u></u>

The financial statements on pages 12 to 29 were approved by the Board of Munich Re Underwriting Limited on 12 March 2009 and was signed on its behalf by



J H Rochman

12 March 2009

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities	15	75,552	55,581
Transfer from/(to) member in respect of underwriting participation		24,872	(27,376)
		<u>100,424</u>	<u>28,205</u>
Cash flows were invested as follows:			
Increase/(Decrease) in cash holdings	16	3,247	(10,703)
Increase/(Decrease) in overseas deposits		148	(1,767)
Increase in net portfolio investments	17	97,029	40,675
Net investment of cashflows		<u>100,424</u>	<u>28,205</u>

