

# **WATKINS SYNDICATE 457**

**ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**Managed by Munich Re Underwriting Limited**

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## DIRECTORS AND ADMINISTRATION

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### 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, 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 (resigned 1 October 2009)  
H J Reed (appointed 1 October 2009)

#### 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)**

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**Actuaries**

KPMG LLP, London

**Registered Auditors**

KPMG Audit Plc, London

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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The directors of the managing agent present their report for the year ended 31<sup>st</sup> December 2009.

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 2009 is £37.3m (2008 – profit of £15.4m). The overall Syndicate result including recognised gains and losses is £40.4m (2008 – profit of £31.3m). 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:

	2009	2008
Gross Written Premium	£366.0m	£333.3m
Profit for the financial year	£37.3m	£15.4m
Total recognised gains and losses since last annual report	£40.4m	£31.3m
Combined Ratio	91%	100%

2009 has been a year of greater economic stability and a very benign year for catastrophe losses. In addition, whilst rates have continued to be under pressure for much of the year, they have held up better than predicted in the business plan and rating levels have been above the technical level and policy conditions have generally been stable. When combined, these factors have allowed the Syndicate to produce a strong result, despite a modest increase in attritional losses, with an overall combined ratio of 91%. Although premiums did not match initial expectations due to lower sums insured and reduced levels of activity amongst the client base, as a result of the worldwide economic downturn, they remain high relative to stamp capacity and a gross premium of £366.0m was written compared to £333.3m in 2008.

The core underwriting philosophy that has stood the Syndicate in good stead in recent years has been maintained with the primary focus remaining on marine insurance and facultative reinsurance. Nevertheless the classes new to the portfolio in 2008 being Accident & Health and Terrorism are now established within the account, even if premium volumes remain modest at this stage. The development of these accounts is carefully managed to ensure that overall portfolio volatility is minimised and the Syndicate exposure balanced. The Syndicate is active in all classes of marine insurance, but as in previous years the Syndicate has very little involvement in Blue water hull business and this is largely restricted to the overseas service company network.

As reported in 2008 the acquisition of Roanoke Trade Services ("Roanoke") was a major milestone in the development of the Munich Re Holding Company (UK) Limited Group ("the Group"). Roanoke is now fully embedded in the Group and will be the bedrock of expansion into the US marine market with regard to small to medium sized risks that require local servicing.

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:

	2009 %	2008 %
<b>Direct insurance:</b>		
• Marine, Aviation and Transport	81.1	84.7
• Fire and Other Damage to Property	6.1	4.7
• Third Party Liability	5.1	5.6
• Accident & Health	4.3	4.0
<b>Reinsurance</b>	3.4	1.0
	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 2008 and 2009.

	2009 %	2008 %
Lloyd's Syndicates	40.8	59.8
UK Authorised Companies	10.3	16.4
EU Companies (other than UK)	46.1	17.9
Other Insurance Companies	2.8	5.9
	100.0	100.0

### US HURRICANE EXPERIENCE

As noted earlier the 2009 hurricane season proved to be benign with very little activity of significance. 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 2009.

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.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

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### 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 Committee which meets monthly to review and update the risk register and to monitor performance against risk appetite. 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.

#### 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 71% 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.

#### 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.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

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### 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.

### DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2009 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 Constant Maturity 2 month's 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.

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.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

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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 2009 calendar year investment performance is as follows:

Currency	Fund Return	Benchmark Return
	%	%
US dollars	2.3	2.8
Canadian dollars	1.8	1.7
Sterling	4.5	2.3
Euros	2.3	3.3

The combined 2009 calendar year investment performance is 2.5%.

### FUTURE DEVELOPMENTS

Three new classes of business have been introduced since 2008 being Terrorism, Accident & Health and following the acquisition of Roanoke, 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 2010.

### SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2009 Account is £300m (2008 Account: £260m). 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 2010 to a capacity of £320m.

### 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 were appointed as auditors at the Board meeting held on 30<sup>th</sup> April 2009 following the resignation of Ernst & Young LLP.

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



**J. H. Rochman**  
Chairman  
18 March 2010



**O.J. Crabtree, ACII**  
Joint Active Underwriter  
18 March 2010



**D.J.R. Hoare, ACII**  
Joint Active Underwriter  
18 March 2010

## STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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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.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 457

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We have audited the annual accounts of Syndicate 457 for the year ended 31 December 2009, 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 21. The Syndicate annual accounts have been prepared under the accounting policies set out therein.

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 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 preparing the Syndicate annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Managing Agent's Responsibilities on page 9.

Our responsibility is to audit the Syndicate 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 Syndicate 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 2008. We also report to you whether in our opinion the Report of the Directors of the Managing Agent is consistent with the Syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the Syndicate, 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 other information attached to the Syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements with the Syndicate annual accounts. Our responsibilities do not extend to any other information.

### **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 Syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the Syndicate 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 Syndicate 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 Syndicate annual accounts.

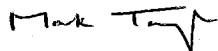
**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF SYNDICATE 457 (continued)**

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**Opinion**

In our opinion:

- the Syndicate annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of Syndicate 457's affairs as at 31 December 2009 and of its profit for the year then ended;
- the Syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008; and
- the information given in the Report of the Directors of the Managing Agent is consistent with the Syndicate annual accounts.



Mark J Taylor (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB  
18 March 2010

**PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT –  
GENERAL BUSINESS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	£000	2009 £000	£000	2008 £000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3		366,032		333,285
Outward reinsurance premiums			(62,397)		(69,982)
			<hr/>		<hr/>
Net premiums written			303,635		263,303
Change in the provision for unearned premiums:					
Gross amount			(3,090)		(19,209)
Reinsurers' share			(3,125)		262
			<hr/>		<hr/>
Change in the net provision for unearned premiums			(6,215)		(18,947)
			<hr/>		<hr/>
<b>Earned premiums, net of reinsurance</b>			297,420		244,356
<b>Allocated investment return transferred from the non-technical account</b>					
			10,099		15,639
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		(238,966)		(151,189)	
Reinsurers' share		82,087		24,925	
		<hr/>		<hr/>	
Net claims paid		(156,879)		(126,264)	
		<hr/>		<hr/>	
Change in the provision for claims					
Gross amount		58,738		(104,687)	
Reinsurers' share		(57,439)		84,705	
		<hr/>		<hr/>	
Change in the net provision for claims		1,299		(19,982)	
		<hr/>		<hr/>	
<b>Claims incurred, net of reinsurance</b>			(155,580)		(146,246)
<b>Net operating costs</b>	3,5		(114,603)		(98,380)
			<hr/>		<hr/>
<b>Balance on the technical account for general business</b>			37,336		15,369
			<hr/> <hr/>		<hr/> <hr/>

All operations are continuing.

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

