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MUNICH RE SYNDICATE 457
(formerly WATKINS SYNDICATE 457)

ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015

Managed by Munich Re Syndicate Limited

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DIRECTORS AND ADMINISTRATION

MANAGING AGENT:

Managing Agent

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

Directors

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

Company Secretary

E M Hargreaves, ACII

Registered Office

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

Registered Number

01328742

SYNDICATE:

Chief Underwriting Officer

D J R Hoare

Bankers

Citibank N.A.
Royal Bank of Scotland plc
Royal Bank of Canada

Investment Manager

Munich ERGO Asset Management GmbH ('MEAG')

Actuaries

KPMG LLP, London E14 5GL

Registered Auditor

KPMG LLP, London E14 5GL

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31 December 2015.

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 2015 is £24.1m (2014: profit of £48.7m). Profits will continue to be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

This is the first year that the Syndicate has presented its results under FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS102 was 1 January 2015. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103 "Insurance contracts". Further details are given in note 30.

During 2015 the Syndicate's principal activity remained the transaction of general insurance and reinsurance business, with a particular focus on the marine, energy and specialty sectors.

The Syndicate's key financial indicators are as follows:

	2015	2014
Gross Written Premium	£436.1m	£446.4m
Profit for the financial year	£24.1m	£48.7m
Combined Ratio	93.8%	88.4%

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

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

For the 2016 account, as part of the initiative for the Syndicate to be Munich Re's primary operation for direct (including some facultative reinsurance) marine, energy and specialty business, the Syndicate assumed responsibility for a number of portfolios. In 2016 new lines of business including Project Cargo, Contingency and China Customs Bonds were included within the Syndicate portfolio arising out of the work conducted during Project 2020. Some of these lines of business started to be written by the Syndicate towards the end of 2015. Other classes of business are being considered and will continue to be monitored. This is in addition to the volume of business that has been transferred into the Syndicate from Munich Re during 2015 following the re-structuring within Munich Re and the Syndicate under the Global Marine Partnership initiative.

The strategy of developing a more balanced portfolio by expanding the service company network is a vital part of the Syndicate policy and this process has continued with the development of a Project Cargo account in Singapore. As has been noted in previous reports, this approach reflects the desire to write business that would not ordinarily reach the London market. This philosophy avoids some of the more extreme competition that has been seen in recent years and the idea of being embedded as a part of regional market activities continues to

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

provide access to a broad spread of less volatile business helping to balance the overall portfolio. As stated earlier, the Syndicate has plans to expand into more specialty markets. The Syndicate is an active participant in all major classes of marine business other than Blue Water Hull business. This class remains an unattractive part of the market and the Syndicate retains its policy of writing its small involvement with this business through its service company network.

2015 proved to be another benign year from the perspective of natural catastrophe events. Although there was some large loss activity in the year, 2015 was notable for a lack of significant loss activity affecting the maritime and offshore energy industries. Whilst this was clearly good news from a claims perspective, it has further fuelled market competition driving down rates and leading to a widening of policy terms. The anticipated trading environment in 2016 will be very challenging.

More capacity entered the market in 2015 and as a result rates in sectors that the Syndicate is active in have fallen and policy conditions have widened. Against this backdrop and in order to retain portfolio balance and profitability, the Syndicate undertook a programme of disengagement from more volatile business in 2015, particularly in the offshore energy construction segment. Gross written income was down by 2% on 2014 but on a consistent currency basis and excluding business transferred into the Syndicate from Munich Re during 2015, gross written income was down 13%, net 20%. As a direct result of the cycle management activities carried out the Syndicate's loss ratios have proven to be better than originally anticipated and broadly in line with the business plan. Sadly this disciplined approach to underwriting is not necessarily mirrored elsewhere. The market continues to suffer from an excess of underwriting capital and it appears that many underwriters are still looking to increase their participation in the marine market despite market conditions deteriorating. As a largely direct insurer the only positive has been the reduction in reinsurance costs. There is no prospect of an immediate hardening of the marine market, however, careful underwriting judgement and the extensive use of cycle management techniques has enabled the Syndicate to ensure that the business written has remained at a level sufficiently above the required technical level to generate a satisfactory return. Margins have reduced, as predicted in the 2014 report, and at this stage 2016 looks to be a difficult year with an even more pessimistic outlook for 2017. During 2015 rates fell in all of the Syndicate's classes of business (although the fall was marginal in some classes) other than marine and energy liabilities and the disappointing response from the aviation war market that occurred in the autumn of 2015.

Against this difficult trading background, it is pleasing to report a strong underwriting performance in 2015 with a combined ratio of 94%. It must be recognised that the Syndicate saw fewer good new business opportunities and as a result of shedding less well rated and more volatile business the gross written premium has fallen to £436.1m in 2015 from £446.4m in 2014.

As noted, the service company network is important and has a strong influence on the overall portfolio accounting for approximately 33.3% (2014: 24.7%) of the estimated earned premium (gross of reinsurance) of the Syndicate.

The management of aggregate exposures remains fundamental to the creation and maintenance of a balanced and sustainable portfolio and therefore it continues to be a focus of the Syndicate's underwriting and the Syndicate invested in allocating more internal resources to this area in 2015. Management pays close attention to ensuring that such exposures, particularly in the Energy and Political Violence accounts, are tightly controlled.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

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

	2015 %	2014 %
Direct insurance:		
• Marine, Aviation and Transport	60	63
• Fire and Other Damage to Property	8	7
• Other	2	1
Reinsurance	30	29
	<u>100</u>	<u>100</u>

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

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

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

The following table provides an analysis of paid reinsurance premiums for 2014 and 2015:

	2015 %	2014 %
Lloyd's Syndicates	31	25
UK Authorised Companies	12	19
EU Companies (other than UK)	25	34
Other Insurance Companies	32	22
	<u>100.0</u>	<u>100.0</u>

PRINCIPAL RISKS AND UNCERTAINTIES

The Board of MRSL ('the Board') sets risk appetite annually as part of the Syndicate's business planning and Solvency Capital Requirement process. Risk appetite is subsequently reviewed by the Board on a periodic basis. The managing agent has a Risk Forum which meets monthly to review and update the risk register and to monitor performance against risk appetite. The Risk & Capital Committee, a sub-committee of the Board, met throughout the year to review and challenge risk management and the use of the internal model for capital calculation purposes. The Board is required to comply with the requirements of the PRA, FCA 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, in addition to the regulatory and compliance risk facing the Syndicate, are monitored in line with the following six risk groups, of which Insurance Risk is by far the most significant to the Syndicate.

Insurance Risk

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

Credit Risk

Credit risk relates to the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Key counter-parties include reinsurers, brokers, insureds, reinsureds, coverholders and investment counter-parties. The Board's policy is that the Syndicate will only reinsure with businesses that have been approved for that purpose. An additional policy of the Board is that all brokers and coverholders have to be approved in advance of being permitted to produce business for the Syndicate. Certain Executive Directors of the Board, assess and approve all new reinsurers before business is placed with them and are also responsible for approval and monitoring of the financial strength of brokers who remain on a risk transfer basis. Credit risk on Syndicate investments is managed by a policy of investing mainly in high rated securities. At the year-end 78% of the Syndicate's "Financial Investments" was rated AA or higher or represented by Sovereign and Government Agency debt. The lowest rated security permitted, BBB- rated per S&P, accounted for just 2% of the Syndicate's "Financial Investments".

Group Risk

Group risk is the potential of risk events, of any nature, arising in or from membership of a corporate group. Munich Re is both the owner of the managing agent and the provider of underwriting capacity to the Syndicate. Munich Re provides reinsurance capacity for a number of classes. Close dialogue exists with the Special and Financial Risks ('SFR') division of Munich Re to discuss any necessary issues. Munich ERGO Asset Management GmbH ('MEAG') is an asset management company, owned by Munich Re, which manages the Syndicate investments. There is a regular flow of information between the Syndicate and Munich Re.

Liquidity Risk

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. The Executive Committee monitors liquidity on a regular basis and has an agreed minimum limit of readily realisable assets. Liquidity risk is further controlled by permitting investment only in assets that are highly liquid and marketable.

Market Risk

Market risk is the risk that arises from fluctuations in values of or income from assets, in interest rates or in exchange rates. The Syndicate writes 76% of its insurance business in United States dollars, Euros and Canadian dollars, which gives rise to a potential exposure to currency risk while a substantial proportion of administrative and personal expenses are incurred in Sterling. The Syndicate mitigates this by adopting a policy of matching assets and liabilities in both currency and duration. The fixed interest investment portfolio and returns are regularly reviewed and reported to the Board.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Syndicate's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Syndicate's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. Risks are managed through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2015 were as follows:

E J Andrewartha
L F Allen (appointed 17 August 2015)
T E Artmann
T Coskun
O J Crabtree (resigned 31 December 2015)
R W R Grande (resigned 1 July 2015)
N J T Gray (resigned 13 May 2015)
G Guelfand
D J R Hoare
A C Maxwell
E N Noble
J H Rochman
M C Watkins

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (Continued)

INVESTMENTS

Investment Policy and Managers

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

MEAG, the group asset manager of Munich Re, is mandated by the managing agent to manage all the Syndicate funds. MEAG manages Syndicate funds against benchmarks, approved by the Board, which have been generated from examination of the underlying profile of the underwriting liabilities and applying an Asset-Liability Matching model.

The Lloyd’s Dollar Trust Fund, which comprises the largest proportion of funds, is managed against a composite of Barclays indices for US Treasury 0-1 (50%), 1-3yr (20%), and US Credit 1-5yr excluding financials (30%). The US situs funds and Singapore funds are managed jointly against a US Treasury 1-3yr benchmark.

The benchmark for the Canadian dollar trust funds was a composite of Merrill Lynch Canadian Government 0-1yr and FTSE Canadian Government 1-3 years.

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

Overall the duration of the portfolio at the year-end was 1.4 years which compared to its benchmark duration of 1.5years. The mandate provided to MEAG permits flexibility in duration around the benchmark of -1 / +0.5 years.

For each of the managed funds the Board has set certain restrictions in terms of sector limits and individual issuer limit. In addition each portfolio is subject to a minimum average rating.

Investment Performance

The 2015 calendar year investment performance is as follows:

Currency	Fund Return %	Benchmark Return %
US dollars	0.5	0.5
Canadian dollars	1.3	1.3
Sterling	0.7	0.6
Euros	0.2	0.1

The combined 2015 calendar year investment performance is 0.6%.

Fund returns were in line with benchmark for the US and Canadian dollars. Sterling and Euro returns both exceeded those generated from their pure government benchmarks due to investment in higher yielding corporate/collateralised bonds and various governments in the Euro fund.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (Continued)

FUTURE DEVELOPMENTS

Lloyd's has moved the Pillar I and II aspects of Solvency II into business as usual. These tests and standards are reflected in the Lloyd's Minimum Standards. Work is in hand to ensure that MRS L continues to comply with these. Pillar III requirements are the subject of an on-going project.

For the 2016 account the Syndicate commenced writing Project Cargo and Contingency business. The Syndicate intends to commence writing China Customs Bonds. The managing agent is considering a number of other classes of business.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate for the 2015 Account was £425m (2014 Account: £425m). All of the capacity of the Syndicate is provided by Munich Re Capital Limited ('MRCL'), an indirect subsidiary of Munich Re. The capacity of the Syndicate remains unchanged for 2016.

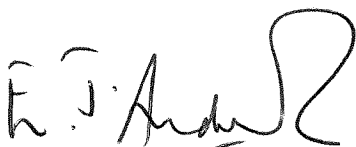
DISCLOSURE OF INFORMATION TO THE AUDITORS

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

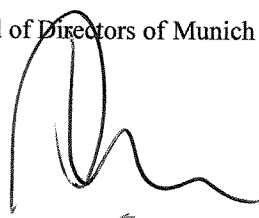
AUDITORS

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

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



E J Andrewartha
Non-Executive Chair
14 March 2016



D J R Hoare, ACII
Chief Underwriting Officer
14 March 2016

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 457

We have audited the Syndicate 457 annual accounts for the year ended 31 December 2015, as set out on pages 12 to 49. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the member 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 member those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's member 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 and for being satisfied that they 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.


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

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

Matters on which we are required to report by exception

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

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


Mark Taylor (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

14 March 2016

**STATEMENT OF PROFIT OR LOSS: TECHNICAL ACCOUNT –
GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 £000	2014 £000
Earned premiums, net of reinsurance			
Gross premiums written	7	436,114	446,439
Outward reinsurance premiums		(118,079)	(99,819)
		<hr/>	<hr/>
Net premiums written		318,035	346,620
Change in the provision for unearned premiums			
Gross amount	17	17,339	8,650
Reinsurers' share	17	9,309	8,645
		<hr/>	<hr/>
Change in the net provision for unearned premiums	17	26,648	17,295
		<hr/>	<hr/>
Earned premiums, net of reinsurance		344,683	363,915
Allocated investment return transferred from the non-technical account		2,617	4,685
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(245,966)	(225,133)
Reinsurers' share		57,467	31,784
		<hr/>	<hr/>
Net claims paid		(188,499)	(193,349)
		<hr/>	<hr/>
Change in the provision for claims			
Gross amount	17	(17,336)	(19,999)
Reinsurers' share	17	22,789	21,393
		<hr/>	<hr/>
Change in the net provision for claims	17	5,453	1,394
		<hr/>	<hr/>
Claims incurred, net of reinsurance		(183,046)	(191,955)
Net operating expenses	8	(140,237)	(127,998)
		<hr/>	<hr/>
Balance on the technical account - general business		24,017	48,647
		<hr/> <hr/>	<hr/> <hr/>

All operations relate to continuing activities.

The notes on pages 18 to 49 form an integral part of these annual accounts.

**STATEMENT OF PROFIT OR LOSS: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 £000	2014 £000
Balance on the technical account – general business		24,017	48,647
Investment income	11	8,085	8,963
Investment expenses and charges	11	(559)	(544)
Realised and unrealised gains on investments	11	600	1,171
Realised and unrealised losses on investments	11	(5,509)	(4,905)
Allocated investment return transferred to general business technical account		(2,617)	(4,685)
Non-technical account income	12	165	48
Loss on foreign exchange		(119)	-
Profit for the financial year		<u>24,063</u>	<u>48,695</u>

All operations relate to continuing activities.

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

The notes on pages 18 to 49 form an integral part of these annual accounts.

BALANCE SHEET – ASSETS AT 31 DECEMBER 2015

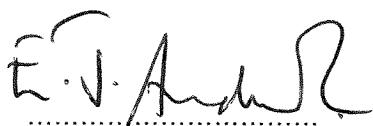
	Notes	2015 £000	2014 £000
Investments			
Other financial investments	13	549,117	581,265
Deposits with ceding undertakings		72	74
		<hr/>	<hr/>
		549,189	581,339
Reinsurers' share of technical provisions			
Provision for unearned premiums	17	30,928	20,637
Claims outstanding	17	155,831	124,776
		<hr/>	<hr/>
		186,759	145,413
Debtors			
Debtors arising out of direct insurance operations	14	131,325	168,219
Debtors arising out of reinsurance operations		61,247	11,507
Other debtors		6,894	4,513
		<hr/>	<hr/>
		199,466	184,239
Other assets			
Cash at bank and in hand		13,447	10,829
		<hr/>	<hr/>
		13,447	10,829
Prepayments and accrued income			
Deferred acquisition costs	15	68,403	63,430
		<hr/>	<hr/>
		68,403	63,430
Total assets		<hr/>	<hr/>
		1,017,264	985,250
		<hr/>	<hr/>

The notes on pages 18 to 49 form an integral part of these annual accounts.

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2015

	Notes	2015 £000	2014 £000
Capital and reserves			
Members' balances		31,119	47,028
Technical provisions			
Provision for unearned premiums	17	262,380	270,912
Claims outstanding	17	612,805	571,241
Provision for other risks and charges		657	3,954
		<hr/>	<hr/>
		875,842	846,107
Creditors			
Creditors arising out of direct insurance operations	19,20	21,007	15,215
Creditors arising out of reinsurance operations	19,21	72,737	52,289
Other creditors	19,22	16,559	24,611
		<hr/>	<hr/>
		110,303	92,115
Total liabilities and equity		<hr/>	<hr/>
		1,017,264	985,250
		<hr/>	<hr/>

The Syndicate annual accounts on pages 12 to 49 were approved by the Board of Munich Re Syndicate Limited on 14 March 2016 and were signed on its behalf by



E J Andrewartha

14 March 2016

The notes on pages 18 to 49 form an integral part of these annual accounts.

**STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 £000	2014 £000
Members' balance brought forward at 1 January		47,028	44,842
Profit for the financial year		24,063	48,695
Net transfer to members' personal reserve funds	23	(39,972)	(46,509)
Members' balance carried forward at 31 December		<u>31,119</u>	<u>47,028</u>

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

The notes on pages 18 to 49 form an integral part of these annual accounts.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 £000	2014 £000
Net cash flows from operating activities			
Profit for the financial year		24,063	48,695
<i>Adjustments:</i>			
Realised and unrealised gains on cash and other financial investments including foreign exchange		(21,584)	(15,076)
Investment return		(2,782)	(4,733)
Investment income received		6,896	7,275
<i>Movements in operating assets and liabilities:</i>			
Increase in gross technical provisions		33,032	48,183
Increase in reinsurers' share of gross technical provisions		(41,346)	(38,455)
(Increase) / decrease in debtors		(20,201)	22,456
Increase in creditors		14,892	2,913
Acquisitions of other financial instruments		(417,158)	(578,860)
Proceeds from sale of other financial investments		459,509	529,569
Decrease in deposits with ceded undertakings including foreign exchange		2	127
Net cash inflow from operating activities		35,323	22,094
Cash flows from financing activities:			
Net transfer to member in respect of underwriting participations		(39,807)	(46,461)
Net cash outflow from financing activities		(39,807)	(46,461)
Net decrease in cash and cash equivalents		(4,484)	(24,367)
Cash and cash equivalents at 1 January		27,064	51,431
Cash and cash equivalents at 31 December	24	22,580	27,064

The notes on pages 18 to 49 form an integral part of these annual accounts.

1. BASIS OF PREPARATION

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

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

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

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

2. CHANGE TO ACCOUNTING POLICIES

These are the first set of financial statements prepared by the Syndicate in accordance with FRS 102 and FRS 103. In the transition to FRS 102 and FRS 103 from old UK GAAP, the Syndicate has made no measurement and recognition adjustments.

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. The techniques used generally involve projecting the development of claims over time from past experience, with adjustment for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Gross Premiums Written

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

(b) Unearned Premiums

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

(c) Reinsurance Premium Ceded

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

(d) Claims Provisions and Related Recoveries

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Claims Provisions and Related Recoveries (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.

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. In addition to third party brokerage, acquisition costs include service company costs and a proportion of Syndicate costs including all box rent, underwriters' employment costs and an allocation of accommodation and IT costs.

5. ACCOUNTING POLICIES

(a) Foreign Currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

5. ACCOUNTING POLICIES (continued)

(b) Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the Statement of Profit or Loss. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

Measurement

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Loans and receivables and non-derivative financial liabilities are measured at amortised cost using the effective interest method.

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

5. ACCOUNTING POLICIES (continued)

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 fair 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 to reflect the investment return on funds supporting underwriting business.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Balance Sheet.

(c) 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.

(d) 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 Barclays Stockbrokers. Contributions to the scheme are charged to the Statement of Profit or Loss 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. During 2014 and as an alternative choice to the defined contribution scheme the Company offered a Group Self Invested Pension Scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

5. ACCOUNTING POLICIES (continued)

(e) Profit Commission

The managing agent does not charge any profit commission.

6. RISK AND CAPITAL MANAGEMENT

Framework

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Munich Re Syndicate Limited's (formerly Munich Re Underwriting Limited) Board ("the managing agent") sets risk appetite annually as part of the Syndicate's business planning and Solvency Capital Requirement process. Risk appetite is subsequently reviewed by the managing agent on a periodic basis. The managing agent has a Risk Forum which meets monthly to review and update the risk register and to monitor performance against risk appetite. The Risk & Capital Committee, a sub-committee of the managing agent's Board, met throughout the year to review and challenge risk management and the use of the internal model for capital calculation purposes. The managing agent is required to comply with the requirements of the PRA, the FCA 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 managing agent policy. The principal risks and uncertainties, in addition to the regulatory and compliance risk facing the Syndicate and consequently Munich Re Capital Limited are monitored in line with the six risk groups, of which Insurance Risk is by far the most significant to the Syndicate.

Insurance Risk

Insurance risk, comprising underwriting risk and reserving risk, is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance premiums and liabilities.

The risk exposure is mitigated by seeking to have a diverse but balanced portfolio of risks across a number of underwriting classes written on a global basis. A further key component of the management of portfolio volatility is via the service company network operating in established broker based markets around the world. These companies are focused on writing local market business that would not necessarily be shown to the London market.

The annual business plan sets out the classes of business, the territories, average line size and type of assured. These plans are approved by the Board and monitored by the Underwriting and Claims Sub-Committee.

It is the policy of the managing agent to purchase appropriate reinsurance to support the business plan taking into consideration the MRSL's board risk appetite and risk retention as well as a review of risk accumulation. With security being of paramount importance, the Syndicate places as much of the programme as possible with reinsurers of the highest calibre, subject to availability and market conditions. The key aim of the non-proportional treaty programme is to maintain cover, both for a single catastrophe loss (vertical) or a sequence of major losses (horizontal). In addition to this the Syndicate purchased significant additional quota share reinsurance as part of its risk management strategy. The Syndicate also purchases facultative reinsurance within the retention to protect the volatility of certain accounts.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its gross written premium.

2015	USA £000	UK £000	Canada £000	Australia £000	Rest of World £000	Total £000
Direct insurance:						
Marine, Energy, Aviation and Transport	48,494	1,820	2,442	667	206,213	259,636
Fire and other damage to property	2,483	68	184	16	31,186	33,937
Third party liability	28	817	-	-	77	922
Accident & Health	-	-	-	-	8,380	8,380
	<u>51,005</u>	<u>2,705</u>	<u>2,626</u>	<u>683</u>	<u>245,856</u>	<u>302,875</u>
Reinsurance	8,046	37	563	345	124,248	133,239
	<u>8,046</u>	<u>37</u>	<u>563</u>	<u>345</u>	<u>124,248</u>	<u>133,239</u>
Total	<u><u>59,051</u></u>	<u><u>2,742</u></u>	<u><u>3,189</u></u>	<u><u>1,028</u></u>	<u><u>370,104</u></u>	<u><u>436,114</u></u>

2014	USA £000	UK £000	Canada £000	Australia £000	Rest of World £000	Total £000
Direct insurance:						
Marine, Energy, Aviation and Transport	61,383	1,472	4,553	12,635	202,364	282,407
Fire and other damage to property	3,460	39	203	1,749	24,822	30,273
Third party liability	197	802	-	-	81	1,080
Accident & Health	9	-	-	303	5,234	5,546
	<u>65,049</u>	<u>2,313</u>	<u>4,756</u>	<u>14,687</u>	<u>232,501</u>	<u>319,306</u>
Reinsurance	6,397	326	143	170	120,097	127,133
	<u>6,397</u>	<u>326</u>	<u>143</u>	<u>170</u>	<u>120,097</u>	<u>127,133</u>
Total	<u><u>71,446</u></u>	<u><u>2,639</u></u>	<u><u>4,899</u></u>	<u><u>14,857</u></u>	<u><u>352,598</u></u>	<u><u>446,439</u></u>

6. RISK AND CAPITAL MANAGEMENT (continued)

Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

	2015 £000		2014 £000	
	5 percent increase	5 percent decrease	5 percent increase	5 percent decrease
Gross claims outstanding	(30,640)	30,640	(28,562)	28,562
Net claims outstanding	(22,849)	22,849	(22,323)	22,323

The Syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

Financial Risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The main components of Financial Risk are Credit, Liquidity and Market risks.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

a) 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.

The investment mandate sets out to minimise credit risk by requiring the individual investment portfolios to maintain an average portfolio quality equivalent to A+ per Standard & Poor's ('S&P'). There are also limits within the mandate to manage the exposure to individual issuers. The investment manager provides a qualitative analysis, on a quarterly basis, of the lowest rated security on the portfolio. No securities may be purchased that are rated below BBB-. No investments in financials are permitted to be purchased that have a rating below A+.

The investment guidelines do not permit use of derivatives or securities lending.

There are counterparty limits in place for each of the cash accounts held with Citibank NA, Bank of Scotland plc and Royal Bank of Canada. These are monitored daily and reported on a weekly basis. Reinsurance is placed with counterparties that have a good credit rating. There is a limited pool of approved reinsurers and any reinsurance that is placed with reinsurers not within this pool requires the approval of certain Executive Directors. All reinsurance is subject to regular internal review.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

	Credit rating relating to financial assets that are neither past due nor impaired						Total £000
	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Not rated £000	
Current Year – 2015							
Shares and other variable yield securities and unit trusts	-	-	5,925	-	-	-	5,925
Debt securities	350,362	74,263	39,581	56,069	-	-	520,275
Participation in investment pools	-	-	-	-	-	841	841
Deposits with credit institutions	9,855	3,862	2,153	5,665	163	378	22,076
Deposits with ceding undertakings	-	-	-	-	-	72	72
Reinsurer' share of claims outstanding	-	47,349	108,309	-	-	173	155,831
Insurance debtors	-	-	-	-	-	131,325	131,325
Other debtors	-	-	-	-	-	6,894	6,894
Reinsurance debtors	-	306	1,112	-	-	17	1,435
Cash at bank and in hand	-	260	13,167	-	-	20	13,447
Total credit risk	360,217	126,040	170,247	61,734	163	139,720	858,121

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

	Credit rating relating to financial assets that are neither past due nor impaired					Not rated	Total
	AAA £000	AA £000	A £000	BBB £000	<BBB £000	£000	£000
Previous Year – 2014							
Shares and other variable yield securities and unit trusts	-	-	9,772	-	-	-	9,772
Debt securities	362,582	92,611	55,693	36,255	-	-	547,141
Participation in investment pools	-	-	-	-	-	3,504	3,504
Deposits with credit institutions	7,726	5,019	7,112	318	-	673	20,848
Deposits with ceding undertakings	-	-	-	-	-	74	74
Reinsurer' share of claims outstanding	-	42,809	81,949	-	-	18	124,776
Insurance debtors	-	-	-	-	-	168,219	168,219
Other debtors	-	-	-	-	-	4,513	4,513
Reinsurance debtors	-	847	2,782	-	-	79	3,708
Cash at bank and in hand	-	4,086	6,742	-	-	1	10,829
Total credit risk	<u>370,308</u>	<u>145,372</u>	<u>164,050</u>	<u>36,573</u>	<u>-</u>	<u>177,081</u>	<u>893,384</u>

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Syndicate.

The syndicate also has debtors arising from direct insurance operations that are impaired at the reporting date.

These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

An analysis of the carrying amounts of past due or impaired debtors is presented in the tables below.

	Neither due nor impaired £000	Financial assets that are past due but not impaired				Financial assets that have been impaired £000	Total £000
		Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000		
Current Year – 2015							
Insurance debtors	130,946	327	38	5	9	-	131,325
Reinsurance debtors	55,607	4,521	419	672	28	-	61,247
Other debtors	6,894	-	-	-	-	-	6,894
Total credit risk	193,447	4,848	457	677	37	-	199,466

	Neither due nor impaired £000	Financial assets that are past due but not impaired				Financial assets that have been impaired £000	Total £000
		Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000		
Current Year – 2014							
Insurance debtors	167,986	182	33	11	7	-	168,219
Reinsurance debtors	4,590	4,527	281	1,368	741	-	11,507
Other debtors	4,513	-	-	-	-	-	4,513
Total credit risk	177,089	4,709	314	1,379	748	-	184,239

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

b) Liquidity Risk

Liquidity risk is the risk that the Syndicate will not have sufficient financial resources to meet liabilities as they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries and an associated risk of gross funding of US situs losses.

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Risk and Capital Committee.

The table below summarises the maturity profile of the Syndicate's financial assets and liabilities.

	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	>5 years £000	Total £000
Current Year –2015						
Financial assets						
Shares and other variable yield securities and units in unit trusts	-	5,925	-	-	-	5,925
Debt securities and other fixed income securities	-	241,968	227,707	47,210	3,390	520,275
Participation in investment pools	-	841	-	-	-	841
Deposits with credit institutions	-	11,056	8,513	2,131	376	22,076
Insurance debtors	-	131,325	-	-	-	131,325
Reinsurance debtors	-	61,247	-	-	-	61,247
Other debtors	-	6,894	-	-	-	6,894
Cash at bank and in hand	-	13,447	-	-	-	13,447
Total	-	472,703	236,220	49,341	3,766	762,030
Financial liabilities						
Creditors	-	105,275	5,028	-	-	110,303
Provision for other risks and charges	657	-	-	-	-	657
Total	657	105,275	5,028	-	-	110,960

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	>5 years £000	Total £000
Previous Year –2014						
Financial assets						
Shares and other variable yield securities and units in unit trusts	-	9,772	-	-	-	9,772
Debt securities and other fixed income securities	-	209,386	282,927	49,678	5,150	547,141
Participation in investment pools	-	3,504	-	-	-	3,504
Deposits with credit institutions	-	11,053	7,135	2,143	517	20,848
Insurance debtors	-	168,219	-	-	-	168,219
Reinsurance debtors	-	11,507	-	-	-	11,507
Other debtors	-	4,513	-	-	-	4,513
Cash at bank and in hand	-	10,829	-	-	-	10,829
Total	-	428,783	290,062	51,821	5,667	776,333
Financial liabilities						
Creditors	-	91,937	178	-	-	92,115
Provision for other risks and charges	563	3,391	-	-	-	3,954
Total	563	95,328	178	-	-	96,069

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of currency and interest risk.

For assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of the assets to the technical provisions they are backing, referred to as Asset-Liability Matching. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates

The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, US and Canadian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

	GBP £000	USD £000	EUR £000	CAD £000	OTHER £000	Total £000
Current year - 2015						
Total assets	111,452	793,539	75,987	19,749	16,537	1,017,264
Total liabilities	(169,464)	(742,768)	(57,055)	(16,858)	-	(986,145)
Net assets	(58,012)	50,771	18,932	2,891	16,537	31,119
Previous year - 2014						
Total assets	97,204	798,180	52,035	22,508	15,323	985,250
Total liabilities	(177,330)	(678,868)	(63,111)	(18,913)	-	(938,222)
Net assets	(80,126)	119,312	(11,076)	3,595	15,323	47,028

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

6. RISK AND CAPITAL MANAGEMENT (continued)

The table below shows the impact on the Syndicate's net assets of a 5% appreciation or depreciation in each currency relative to Sterling, as at the Balance Sheet date.

Current year - 2015	GBP £000	USD £000	EUR £000	CAD £000	OTHER £000	Total £000
5 percent appreciation	-	2,539	947	145	827	4,458
5 percent depreciation	-	(2,539)	(947)	(145)	(827)	(4,458)
Previous year - 2014	GBP £000	USD £000	EUR £000	CAD £000	OTHER £000	Total £000
5 percent appreciation	-	5,966	(554)	180	766	6,358
5 percent depreciation	-	(5,966)	554	(180)	(766)	(6,358)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The sensitivity analysis below shows the impact of a 50 basis point movements in interest rates with all other variables held constant, showing the impact on net assets.

	2015 £000	2014 £000
Interest rate risk		
Impact of 50 basis point increase on net assets	(3,908)	(4,412)
Impact of 50 basis point decrease on net assets	3,908	4,412

The impact of the reasonably possible changes in the interest rate on Members' balances would be the same, since the Syndicate recognises all changes in recognised assets and liabilities in profit or loss.

6. RISK AND CAPITAL MANAGEMENT (continued)

Capital Management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with the Solvency II Directive.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's ('FAL')), held within and managed within a syndicate (Funds in Syndicate ('FIS')) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate with the exception of Funds in Syndicate ('FIS') balance held, as represented in the members' balances reported on the Balance Sheet on page 15, represent resources available to meet members' and Lloyd's capital requirements.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

7. ANALYSIS OF UNDERWRITING RESULT

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

2015	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000
Direct insurance:						
Marine, Energy, Aviation and Transport	259,637	281,029	(141,907)	(84,621)	(27,128)	27,373
Fire and other damage to property	33,937	33,275	(12,013)	(11,201)	(5,939)	4,122
Third party liability	922	968	(521)	(356)	(453)	(362)
Accident & Health	8,380	8,332	(2,759)	(4,336)	(503)	734
	<u>302,876</u>	<u>323,604</u>	<u>(157,200)</u>	<u>(100,514)</u>	<u>(34,023)</u>	<u>31,867</u>
Reinsurance	133,238	129,849	(106,102)	(39,723)	5,509	(10,467)
	<u>133,238</u>	<u>129,849</u>	<u>(106,102)</u>	<u>(39,723)</u>	<u>5,509</u>	<u>(10,467)</u>
Total	<u>436,114</u>	<u>453,453</u>	<u>(263,302)</u>	<u>(140,237)</u>	<u>(28,514)</u>	<u>21,400</u>

2014	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000
Direct insurance:						
Marine, Energy, Aviation and Transport	282,407	293,927	(175,812)	(78,190)	(28,480)	11,445
Fire and other damage to property	30,273	30,176	(12,491)	(10,623)	(4,645)	2,417
Third party liability	1,080	1,102	(451)	(386)	(84)	181
Accident & Health	5,546	6,914	(2,153)	(3,210)	(328)	1,223
	<u>319,306</u>	<u>332,119</u>	<u>(190,907)</u>	<u>(92,409)</u>	<u>(33,537)</u>	<u>15,266</u>
Reinsurance	127,133	122,970	(54,225)	(35,589)	(4,460)	28,696
	<u>127,133</u>	<u>122,970</u>	<u>(54,225)</u>	<u>(35,589)</u>	<u>(4,460)</u>	<u>28,696</u>
Total	<u>446,439</u>	<u>455,089</u>	<u>(245,132)</u>	<u>(127,998)</u>	<u>(37,997)</u>	<u>43,962</u>

All premiums are written through Lloyd's and concluded in the UK.

Brokerage and commission on direct business written was £62.7m (2014: £55.9m).

*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 2015 or 2014.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

7. ANALYSIS OF UNDERWRITING RESULT (continued)

The geographical analysis of premiums by destination is as follows:

	2015 £000	2014 £000
UK	436,114	446,439
	<u>436,114</u>	<u>446,439</u>

8. NET OPERATING EXPENSES

	2015 £000	2014 £000
Acquisition costs	119,859	111,964
Change in deferred acquisition costs	(3,188)	(4,600)
Administrative expenses	23,566	20,634
	<u>140,237</u>	<u>127,998</u>

Administrative expenses include:

	2015 £000	2014 £000
Fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	96	88
Fees payable to the Syndicate auditor and its associates for other services:		
Audit-related assurance services	45	64
Tax advisory services	5	5
Other assurance services	63	65
	<u>209</u>	<u>222</u>

Members' standard personal expenses are included within administrative expenses.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

9. 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:

	2015 £000	2014 £000
Wages and salaries	11,261	9,826
Social security costs	1,648	1,445
Other pension costs	1,607	1,406
	<u>14,516</u>	<u>12,677</u>

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

	2015 £000	2014 £000
Underwriting	50	44
Claims	9	6
Other	51	56
	<u>110</u>	<u>106</u>

10. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2015 £000	2014 £000
Directors' Emoluments	2,861	2,460
Contributions to pension scheme	132	98
	<u>2,993</u>	<u>2,558</u>

No other compensation was payable to key management personnel. For the purposes of this disclosure, key management personnel are taken to be the Directors of the Managing Agency.

Directors' emoluments include severance payments of £113,468 for the year ended 31 December 2015. The highest paid director received the following remuneration charged as a Syndicate expense and included within the directors' emoluments above:

	2015 £000	2014 £000
Emoluments	562	551
Contributions to pension scheme	-	-
	<u>562</u>	<u>551</u>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

10. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The joint active underwriters received the following remuneration charged as a Syndicate expense and included within the directors' emoluments above:

	2015	2014
	£000	£000
Emoluments	837	787
Contributions to pension scheme	-	4
	<hr/>	<hr/>
	837	791
	<hr/>	<hr/>

11. INVESTMENT RETURN

	2015	2014
	£000	£000
Investment income		
Income from investments	8,085	8,963
Gains on the realisation of investments	416	461
Unrealised gains on investments	184	710
	<hr/>	<hr/>
	8,685	10,134
	<hr/>	<hr/>
Investment expenses and charges		
Investment management expenses	(559)	(544)
Losses on the realisation of investments	(1,605)	(2,149)
Unrealised losses on investments	(3,904)	(2,756)
	<hr/>	<hr/>
	(6,068)	(5,449)
	<hr/>	<hr/>
Total investment return	2,617	4,685
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

11. INVESTMENT RETURN (continued)

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

	2015 £000	2014 £000
Average amount of syndicate funds available for investment during the year		
Sterling	96,769	121,354
Euro	23,306	26,400
US dollar	455,816	421,024
Canadian dollar	13,924	18,901
	<hr/>	<hr/>
Average funds available for investment, in Sterling	589,815	587,679
	<hr/>	<hr/>
Total investment return	2,617	4,685
	<hr/>	<hr/>
Annual investment yield		
Sterling	0.8	1.4
Euro	0.2	0.7
US dollar	0.3	0.7
Canadian dollar	1.2	2.3
	<hr/>	<hr/>
Total annual investment yield, in Sterling	0.4	0.8
	<hr/>	<hr/>

12. NON-TECHNICAL ACCOUNT INCOME/CHARGES

The non-technical account income of £165,000 (2014: £48,000) reflects investment income earned on Funds in Syndicate deposited by MRCL into the Syndicate's Premium Trust Fund.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

13. OTHER FINANCIAL INVESTMENTS

	Fair value		Cost	
	2015 £000	2014 £000	2015 £000	2014 £000
Shares and other variable yield securities and units in unit trusts	5,925	9,772	5,925	9,772
Debt securities and other fixed income securities	520,275	547,141	523,884	548,356
Participation in investment pools	841	3,504	841	3,503
Deposits with credit institutions	22,076	20,848	22,076	20,848
	<u>549,117</u>	<u>581,265</u>	<u>552,726</u>	<u>582,479</u>

All "Debt securities and other fixed income securities" are highly liquid and marketable. These comprise 94.7% (2014: 94.1%) of the total market value of investments.

Included within the fair value of financial investments is accrued income of £2,022,000 (2014: £2,326,000).

Included within 'Deposits with credit institutions' are 'Overseas deposits' of £21,728,000 (2014: £20,509,000) held at fair value (see note 16).

Valuation hierarchy

The Company classifies its financial instruments held at fair value in its Statement of Financial Position using a fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 – Prices based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 – Prices determined using a valuation technique.

The table below analyses financial instruments held at fair value in the Syndicate's balance sheet at the reporting date by its level in the fair value hierarchy.

	Fair value hierarchy £000			
	Level 1	Level 2	Level 3	Total £000
Current Year - 2015				
Shares and other variable yield securities and units in unit trusts	5,925	-	-	5,925
Debt securities and other fixed income securities	355,283	164,992	-	520,275
Participation in investment pools	841	-	-	841
Loans and deposits with credit institutions	12,141	9,935	-	22,076
Total	<u>374,190</u>	<u>174,927</u>	<u>-</u>	<u>549,117</u>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

13. OTHER FINANCIAL INVESTMENTS (continued)

	Fair value hierarchy £000			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Previous Year - 2014				
Shares and other variable yield securities and units in unit trusts	9,772	-	-	9,772
Debt securities and other fixed income securities	346,201	200,940	-	547,141
Participation in investment pools	3,504	-	-	3,504
Loans and deposits with credit institutions	12,082	8,766	-	20,848
	<hr/>	<hr/>	<hr/>	<hr/>
Total	371,559	209,706	-	581,265
	<hr/>	<hr/>	<hr/>	<hr/>

14. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2015 £000	2014 £000
Due from intermediaries:		
Due within one year	126,204	165,568
Due after one year	5,121	2,651
	<hr/>	<hr/>
	131,325	168,219
	<hr/>	<hr/>

15. DEFERRED ACQUISITION COSTS

	2015 £000	2014 £000
Balance at 1 January	63,430	65,967
Movement in deferred acquisition costs	3,188	(4,600)
Effect of movements in exchange rates	1,785	2,063
	<hr/>	<hr/>
Balance at 31 December	68,403	63,430
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

16. OVERSEAS DEPOSITS

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries and for local regulatory requirements. Of the total balance below, £20,000 (2014: £7,000) is recognised as cash and £21,728,000 (2014: £20,509,000) is recognised as Other Financial Investments.

	2015	2014
	£000	£000
Illinois Deposit	718	654
Joint Asset Trust Funds	1,498	1,458
Additional Securities Limited	7,596	6,795
South African Trust Deed	232	204
Australian Trust Fund	8,907	8,347
Other Funds	2,797	3,058
	<hr/>	<hr/>
Overseas Deposits	21,748	20,516
	<hr/>	<hr/>

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.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

17. TECHNICAL PROVISIONS

	2015			2014		
	Gross Provisions £000	Reinsurance assets £000	Net £000	Gross Provisions £000	Reinsurance assets £000	Net £000
Claims outstanding:						
Balance at 1 January	571,241	(124,776)	446,465	526,330	(97,287)	429,043
Change in claims outstanding	(17,336)	22,789	5,453	19,999	(21,393)	(1,394)
Effect of movements in exchange rates	58,900	(53,844)	5,056	24,912	(6,096)	18,816
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	612,805	(155,831)	456,974	571,241	(124,776)	446,465
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Claims notified	259,572	(54,431)	205,141	260,475	(71,246)	189,229
Claims incurred but not reported	353,233	(101,400)	251,833	310,766	(53,530)	257,236
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	612,805	(155,831)	456,974	571,241	(124,776)	446,465
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Unearned premiums:						
Balance at 1 January	270,912	(20,637)	250,275	267,641	(9,671)	257,970
Change in unearned premiums	(17,339)	(9,309)	(26,648)	(8,650)	(8,645)	(17,295)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Effect of movements in exchange rates	8,807	(982)	7,825	11,921	(2,321)	9,600
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	262,380	(30,928)	231,452	270,912	(20,637)	250,275
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Claims outstanding

The 2015 net technical result of £24.0m (2014: £48.6m) includes £29.0m (2014: £27.7m) of releases from reserves in respect of prior accident years.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

18. CLAIMS DEVELOPMENT

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2015 in all cases.

Claims development table gross of reinsurance by accident year

	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
Estimate of cumulative claims						
At end of underwriting year	(121,068)	(126,367)	(142,527)	(136,890)	(142,475)	
One year later	(229,609)	(258,417)	(289,001)	(262,375)		
Two years later	(240,072)	(275,772)	(288,925)			
Three years later	(235,561)	(269,706)				
Four years later	(250,295)					
Less Gross claims paid	203,088	196,373	187,769	101,053	21,412	
Gross claims reserve	(47,207)	(73,333)	(101,156)	(161,322)	(121,063)	(504,081)
Gross claims reserve for 2010 and prior years						(108,724)
Total Gross claims reserve						(612,805)

Claims development table net of reinsurance by accident year

	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
Estimate of cumulative claims						
At end of underwriting year	(103,798)	(109,210)	(128,201)	(99,046)	(87,367)	
One year later	(194,647)	(226,482)	(249,820)	(203,148)		
Two years later	(199,048)	(245,250)	(247,580)			
Three years later	(191,125)	(233,334)				
Four years later	(197,110)					
Less Net claims paid	165,017	170,700	154,450	79,121	19,066	
Net claims reserve	(32,093)	(62,634)	(93,130)	(124,027)	(68,301)	(380,185)
Net claims reserve for 2010 and prior years						(76,789)
Total Net claims reserve						(456,974)

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2015 (Continued)

19. FINANCIAL LIABILITIES AT AMORTISED COST

	2015	2014
	£000	£000
Creditors arising out of direct insurance operations	21,007	15,215
Creditors arising out of reinsurance operations	72,737	52,289
Other creditors	16,559	24,611
	<hr/>	<hr/>
	110,303	92,115
	<hr/>	<hr/>

20. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2015	2014
	£000	£000
Arising out of direct insurance operations intermediaries:		
Due within one year	15,978	15,214
Due after one year	5,029	1
	<hr/>	<hr/>
	21,007	15,215
	<hr/>	<hr/>

21. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2015	2014
	£000	£000
Arising out of reinsurance operations intermediaries:		
Due within one year	72,737	52,112
Due after one year	-	177
	<hr/>	<hr/>
	72,737	52,289
	<hr/>	<hr/>

22. OTHER CREDITORS

	2015	2014
	£000	£000
Due within one year:		
Amount due to Managing Agent	12,328	21,264
Amount due to service companies	3,919	3,103
Other	312	244
	<hr/>	<hr/>
	16,559	24,611
	<hr/>	<hr/>

23. GROSS DISTRIBUTION PAYABLE

The gross distribution payable to the member was £54,547,000 (2014: £61,018,000) of which £14,575,000 (2014: £14,509,000) was retained within the Syndicate to meet solvency requirements. Income relating to these funds retained has been included within the profit and loss account and foreign exchange gains in the statement of total recognised gains and losses.

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.

24. CASH AND CASH EQUIVALENTS

	2015 £000	2014 £000
Cash at bank and in hand	13,447	10,829
Other Financial Investments	9,133	16,235
	<u>22,580</u>	<u>27,064</u>

Cash at bank and in hand includes £3,898,000 (2014: £1,591,000) of Singapore funds. The Singapore funds relate to SIF and OIF assets held in trust in accordance with the Lloyd's Asia (Singapore policies) Instruments 2002 and Lloyd's Asia (Offshore policies) Instrument 2002. Under the terms of the standard mandate agreement all powers, authorities and discretions of the managing agent's trustees and of the managing agent are delegated to individuals who are officers of Watkins Syndicate Singapore Pte Limited, a service company of the Syndicate.

Only Other Financial Investments comprising of call deposits with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

25. RELATED PARTIES

**Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
(‘Munich Re’)**

Munich Re Syndicate Limited is wholly owned by Munich Re Holding Company (UK) Limited (‘MRHC(UK)L’), which is wholly owned by Munich Re. The Syndicate placed a total of £5.9m (2014: £19.3m) reinsurance premium with its ultimate parent undertaking under 9 (2014: 12) different contracts for the 2015 year of account. These contracts provided the Syndicate with cover within the normal course of business and the transactions were carried out at arm’s length.

During 2015 the Syndicate wrote reinsurance contracts with other Munich Re group companies including American Alternative Insurance Corporation, Great Lakes Reinsurance (UK) SE, HSB Engineering Insurance Ltd and ERGO, the primary insurer of Munich Re. The total premium on these policies was £38.5m (2014: £32.9m).

The managing agent paid licence fees of £161,000 (2014: £193,000) to Munich Re for its general ledger accounting system.

Munich Re Capital Limited (‘MRCL’)

MRCL is the corporate member of the Syndicate. MRCL’s immediate parent company is MRHC(UK)L.

Munich Re Syndicate Limited (‘MRSL’)

During the year, the Syndicate has paid fees to MRSL, the managing agent of the Syndicate, amounting to £850,000 (2014: £850,000). MRSL’s immediate parent company is MRHC(UK)L.

Munich Ergo Asset Management GmbH (‘MEAG’)

MEAG is Munich Re’s asset management company. The Syndicate paid a total of £517,000 (2014: £585,000) for investment management and accounting services in 2015.

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 for the Syndicate under a binding authority. Business produced by NMU amounts to approximately 13.6% (2014: 9.7%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015.

On 31 December 2011 the Syndicate provided a subordinated loan of £200,000 to NMU. This was necessary to ensure the continued regulatory compliance of NMU. This loan bears interest at LIBOR plus 1%.

Messrs. Artmann (appointed 16 November 2015), Coskun, Grande (resigned 4 June 2015), Hoare (appointed 18 November 2015) 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 5.6% (2014: 4.1%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015.

On 31 December 2007 the Syndicate provided a subordinated loan of £700,000 to GJW. This was necessary to ensure the continued regulatory compliance of GJW. This loan bears interest at LIBOR plus 1%.

25. RELATED PARTIES (continued)

Messrs. Artmann (appointed 8 September 2015), Crabtree (resigned 31 December 2015), Grande (resigned 4 June 2015), Hoare (appointed 8 September 2015) and Watkins are directors of GJW.

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 3.8% (2014: 3.4%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015. WSS was renamed to Munich Re Syndicate Singapore Pte Ltd on 1 January 2016.

Messrs. Artmann (appointed 24 November 2015) 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 0.5% (2014: 0.6%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015. WSHK was renamed to Munich Re Syndicate Hong Kong Limited on 4 January 2016.

Messrs. Artmann (appointed 4 January 2016), Grande (resigned 20 April 2015) 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 1.0% (2014: 1.0%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015. WSMEL was renamed to Munich Re Syndicate Middle East Limited on 1 January 2016.

Messrs. Artmann (appointed 21 January 2016), Coskun and Watkins are directors of WSMEL.

Watkins Syndicate Labuan Limited ('WSLAB')

WSLAB is a non-profit making service company owned by Munich Re Holding Company (UK) Limited and produces marine business from Malaysia exclusively for the Syndicate under a binding authority. WSLAB commenced trading 1 January 2014. Business produced by WSLAB amounts to approximately 0.5% (2014: 0.4%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015. WSLAB was renamed to Munich Re Syndicate Labuan Limited on 4 January 2016.

Mr Watkins is a director of WSLAB.

Roanoke Group 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 USA amounts to approximately 8.2% (2014: 5.7%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2015.

Messrs. Artmann (appointed 28 August 2015), Hoare (appointed 28 August 2015) and Watkins are directors of The Roanoke Companies Inc., the parent company of Roanoke USA.

Roanoke International Brokers Limited ('RIBL')

RIBL is an insurance broker wholly owned by Munich Re Holding Company (UK) Limited. RIBL conducts business both with the Syndicate and third parties. The gross brokerage income generated by

25. RELATED PARTIES (continued)

RIBL in the year ending to 31 December 2015 was £3.5m (2014: £3.8m). A high percentage of this brokerage is from the placement of business through the above mentioned service companies.

Messrs. Gray (resigned 13 May 2015) and Watkins are directors of RIBL.

26. 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'). As at 31 December 2015, the value of assets supporting FAL for the 2015 year of account is £40 m and \$327m. These assets are in the form of letters of credit from Munich Re. 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 PRA 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.

27. FUNDS IN SYNDICATE

MRCL holds investments in the Syndicate to be used to support the Syndicate's capital requirements of FAL. This gives the Syndicate the ability to manage these funds under the same investment mandate as the other funds of the Syndicate that are held within the premium trust funds. The value of FIS as at the balance sheet date was £30,165,000 (2014: £15,425,000).

28. FOREIGN EXCHANGE RATES

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

	2015	2015	2014	2014
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.36	1.38	1.29	1.24
US dollar	1.47	1.53	1.56	1.65
Canadian dollar	2.05	1.95	1.81	1.82

29. POST BALANCE SHEET EVENTS

A distribution of £34.7 million to members will be proposed in relation to the 2013 year of account (2014: £54.5 million in relation to the 2012 year of account).

30. TRANSITION TO FRS 102 AND FRS 103

As stated in note 2, these are the Syndicate's first financial statements prepared in accordance with FRS 102 and FRS 103.

The impact from the transition to FRS 102 and FRS 103 is as follows:

Foreign exchange

Under FRS 102, foreign exchange gains and losses are recognised through operating expenses as opposed to being recognised in, what was formerly known as, the Statement of Total Recognised Gains and Losses. The impact of this adjustment is to increase the profit for the 2014 financial year by £1.6m. There is no impact on total Members' Balance as at 1 January 2014 or 31 December 2014 as a result of this change.

Reconciliation of profit and loss for the year ended 31 December 2014

	£000
Profit for the year ended 31 December 2014 under previous UK GAAP	47,105
Foreign exchange	1,590
Profit for the year ended 31 December 2014 under FRS 102 and FRS 103	48,695

In addition to the transition adjustments identified above, which effect profit for the year, the following adjustments have arisen which have had no effect on the Member's Balance or the Statement of Profit or Loss, but have affected the presentation of items on the balance sheet.

Overseas deposits

Overseas deposits, with a value of £20,509,000 at 1 January 2014 (transition date), have been reclassified from Other assets to Other financial investments. In addition, overseas deposits, with a value of £7,000 at 1 January 2014 (transition date), have been reclassified from Other assets to Cash at bank and in hand.