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# **MUNICH RE SYNDICATE 457**

**ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**Managed by Munich Re Syndicate Limited**

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## DIRECTORS AND ADMINISTRATION

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### MANAGING AGENT

#### Managing Agent

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

#### Directors

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

#### Company Secretary

E M Hargreaves, ACII

#### Registered Office

St. Helens, 1 Undershaft, London EC3A 8EE  
Telephone: 020 7886 3900 ♦ Facsimile: 020 7886 3901  
E-mail: [central@mrunderwriting.com](mailto:central@mrunderwriting.com)  
Website: [www.munichre.com/syndicate457](http://www.munichre.com/syndicate457)

#### Registered Number

01328742

#### SYNDICATE:

##### Chief Underwriting Officer

D J R Hoare

##### Bankers

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

##### 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

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The directors of the Managing Agent present their report for the year ended 31 December 2017.

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 2017 is £44m (2016: profit of £43m). Profits will continue to be distributed by reference to the results of individual underwriting years.

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

During 2017 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:

	2017	2016
Gross Written Premium	£423m	£356m
Profit for the financial year	£44m	£43m
Combined Ratio	88%	91%

During 2017, the Syndicate continued to embed the structural and strategic changes which were developed from Munich Re's (Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München) long term strategy for the Syndicate, known as MRSG 25. This initiative is for the Syndicate to be Munich Re's primary operation for direct (including some Facultative Reinsurance) Marine, Energy and Specialty business. For the 2016 account, the Syndicate assumed responsibility for a number of new lines of business including Project Cargo, Contingency, Financial Lines and Cyber. During 2017, the opportunity also arose to recruit a Film and Media underwriter with a portfolio of business that complemented the existing Contingency account. In both Financial Lines and Cyber, the core underwriting skills involved the transfer of individuals into the Syndicate from Munich Re. Additionally in 2017, a Political Risk and Trade Credit team was recruited as the Syndicate continued to diversify its risk appetite and to enhance the broader specialty platform. Although it is now envisaged that there will be a period of consolidation after the start-up of these target classes, other lines of business are being considered and will continue to be monitored.

The Syndicate has a strategy of developing a more balanced portfolio, of which the Service Company network is a vital part; the Syndicate has been closely involved in assisting several of the Service Companies, notably Groves, John & Westrup Limited ("GJW") and the Asia based Service Companies, in restructuring their underwriting strategy in order to achieve a stronger and more sustainable platform for profit. This approach reflects the desire to write business that would not ordinarily reach the London market. This philosophy avoids some of the more extreme competition that has been seen in recent years and the idea of being embedded as a part of regional market activities continues to provide access to a broad spread of less volatile business helping to balance the overall portfolio.

2017 was a big year for natural catastrophe events across the globe. Early reports indicate that 2017 economic losses will be more than double those of 2016. Insured losses are also estimated to be the third highest on record. As well as a number of major earthquakes and the most destructive Californian Wildfire season on record, 2017 saw the first significant North Atlantic Windstorm season for several years. With the highest number of hurricanes since 2005 and 17 named storms, this ranked as the seventh most active season (by Accumulated Cyclone Energy index) since records began in 1851. Three devastating major hurricanes made landfall; Harvey in Texas, Irma in the Caribbean and southeastern US, and Maria in the Caribbean and Puerto Rico. Total economic losses are thought to exceed US\$200bn, making the season the costliest in history.

The hurricane losses from Harvey, Irma and Maria impacted several classes including Yacht, Cargo, Specie and Liability but reinsurance was well-placed to manage this sort of scenario.

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

The soft, competitive market of the last few years continued into the first part of 2017, although there were already signs in some sectors that rates were stabilising. This started to crystallise as the loss tally, particularly in the US Property market, rose. The Syndicate saw an opportunity to provide some Marine Reinsurance capacity and, recruiting reinsurance expertise from Munich Re, put in place a Marine Reinsurance account during the fourth quarter in preparation for a changing market. The market changes in the latter part of the year and the development of the new classes have resulted in the gross written income for 2017 stabilising and increasing over 2016.

The 2017 underwriting year, although broadly in line with the Syndicate plan, is producing little profit. The 2017 Financial year result is largely driven by better actual experience compared to expected leading to reserve redundancies on old years of account and investment return.

The Service Company network remains important and has a strong influence on the overall portfolio accounting for approximately 32% (2016: 34%) 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. Management pays close attention to ensuring that such exposures, particularly in the Energy, Cyber, Cargo and Political Violence accounts, are tightly controlled.

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

	2017 %	2016 %
<b>Direct insurance:</b>		
• Marine, Aviation and Transport	49	60
• Fire and Other Damage to Property	10	7
• Other	6	4
<b>Reinsurance</b>	35	29
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

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 events.

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

The following table provides an analysis of paid reinsurance premiums for 2017 and 2016:

	2017 %	2016 %
Lloyd's Syndicates	23	28
UK Authorised Companies	16	19
EU Companies (other than UK)	26	20
Other Insurance Companies	35	33
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board of MRSL ('the Board') sets risk appetite annually as part of the Syndicate's business planning and Solvency Capital Requirement process. Risk appetite is subsequently reviewed by the Board on a periodic basis.

### Insurance Risk

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

### Credit Risk

Credit risk relates to the risk of loss if another party fails to perform its financial obligations or fails to perform them in a timely fashion. Key counter-parties include reinsurers, brokers, insureds, reinsureds, coverholders and investment counter-parties. The Board's policy is that the Syndicate will only reinsure with businesses that have been approved for that purpose. An additional policy of the Board is that all brokers and coverholders have to be approved in advance of being permitted to produce business for the Syndicate. Certain Executive Directors of the Board, assess and approve all new reinsurers before business is placed with them and are also responsible for approval and monitoring of the financial strength of brokers who remain on a risk transfer basis. Credit risk on Syndicate investments is managed by a policy of investing mainly in highly rated securities. At the year-end 80% of the Syndicate's "Financial Investments" was rated AA or higher or represented by Sovereign and Government Agency debt. The lowest rated security permitted, BBB- rated per S&P, accounted for just 1% of the Syndicate's "Financial Investments".

### Group Risk

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

### Liquidity Risk

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

### Market Risk

Market risk is the risk that arises from fluctuations in values of or income from assets, in interest rates or in exchange rates. The Syndicate settles 79.5% of its insurance business in United States dollars, Euros and Canadian dollars, which gives rise to a potential exposure to currency risk while a substantial proportion of administrative and personal expenses are incurred in Sterling. The Syndicate mitigates this by adopting a policy of controlled matching of assets and liabilities in both currency and duration. The fixed interest investment portfolio and returns are regularly reviewed and reported to the Board.

**Operational Risk**

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

**Environmental Risk**

On 23 June 2016 the United Kingdom voted in favour of leaving the European Union, in a referendum. The UK is scheduled to depart on Friday 29 March 2019. The Syndicate and its Managing Agent, MRSL has formed an internal group to assess and manage the impact's following Brexit which is a multi-disciplinary working group of internal employees. This group is also working closely with the Corporation of Lloyd's to ensure that the impact to the market is managed. This includes the internal processes and procedures that will be impacted following the establishment of Lloyd's Insurance Company in Brussels, Belgium.

**DIRECTORS**

The Directors of the Managing Agent who held office during the year ended 31 December 2017 were as follows:

L F Allen  
E J Andrewartha  
T E Artmann  
T J Carroll (appointed 1 March 2017)  
T Coskun  
S E Gosch (Non-Executive Director Prior to 18 October 2017)  
G Guelfand  
D J R Hoare  
A C Maxwell (resigned 1 September 2017)  
E N Noble  
J H Rochman



## **INVESTMENTS**

### **Investment Policy and Managers**

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

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

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

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

The Sterling and Euros trust funds are managed against benchmarks comprising 50% money market and 50% government indices of 1-3 years.

Overall the duration of the portfolio at the year-end was 1.8 years which is inline with the benchmark duration. The mandate provided to MEAG permits flexibility in duration around the benchmark of +1/-1 year.

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 credit rating.

### **Investment Performance**

The 2017 calendar year investment performance is as follows:

<b>Currency</b>	<b>Fund Return</b>	<b>Benchmark Return</b>
	<b>%</b>	<b>%</b>
US dollars	1.1	1.0
Canadian dollars	0.5	0.5
Sterling	0.2	-0.3
Euros	0.0	-1.1

The combined 2017 calendar year investment performance is 1.0% compared to a benchmark of 0.7%

Most of the outperformance is coming from the USD portfolio via the Lloyd’s Dollar Trust Fund (LDTF) portfolio, driven by successful duration decisions and sector rotation in the corporate holdings.

## **FUTURE DEVELOPMENTS**

For the 2018 year of account the Syndicate will develop writing Marine Reinsurance and Trade Credit business whilst embedding into the Syndicate all new classes of business. 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 2017 Account was £425m (2016 Account: £425m & remained unchanged for 2018). 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 is based on Gross Net premiums and remains unchanged for 2018.

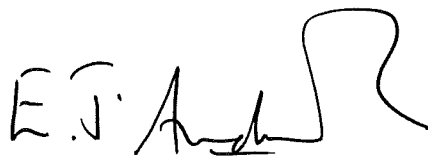
## **DISCLOSURE OF INFORMATION TO THE AUDITORS**

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 auditor unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditor aware of that information.

## **AUDITORS**

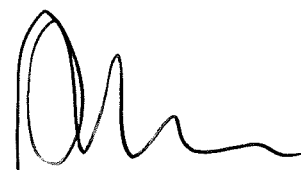
KPMG LLP has signified its willingness to continue in office as the independent auditor to the Syndicate and it is the Managing Agent's intention to reappoint KPMG LLP for a further year.

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

13 March 2018



**D J R Hoare, ACII**  
Chief Underwriting Officer

13 March 2018

## STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

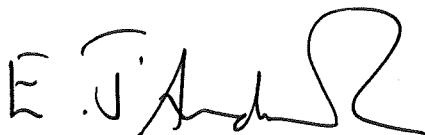
The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with 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*.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



On behalf of the board

**E J Andrewartha**  
Non-Executive Chair

13 March 2018

### Opinion

We have audited the financial statements of Syndicate 457 for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the significant accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

### Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Responsibilities of the directors of the Managing Agent**

As explained more fully in their statement set out on page 9, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an 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 company and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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

13 March 2018

**STATEMENT OF PROFIT OR LOSS: NON-TECHNICAL ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £000	2016 £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	5	423,450	356,238
Outward reinsurance premiums		(98,892)	(85,221)
		<hr/>	<hr/>
Net premiums written		324,558	271,017
Change in the provision for unearned premiums			
Gross amount	15	8,527	66,655
Reinsurers' share	15	254	(9,407)
		<hr/>	<hr/>
Change in the net provision for unearned premiums	15	8,781	57,248
		<hr/>	<hr/>
<b>Earned premiums, net of reinsurance</b>		333,339	328,265
<b>Allocated investment return transferred from the non-technical account</b>	9	4,335	6,001
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(247,509)	(208,471)
Reinsurers' share		70,934	31,059
		<hr/>	<hr/>
Net claims paid		(176,575)	(177,412)
		<hr/>	<hr/>
Change in the provision for claims			
Gross amount	15	26,472	(29,419)
Reinsurers' share	15	19,928	58,772
		<hr/>	<hr/>
Change in the net provision for claims	15	46,400	29,353
		<hr/>	<hr/>
<b>Claims incurred, net of reinsurance</b>		(130,175)	(148,059)
<b>Net operating expenses</b>	6	(163,836)	(150,624)
		<hr/>	<hr/>
<b>Balance on the technical account - general business</b>		43,663	35,583
		<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 2017**

	Notes	2017 £000	2016 £000
<b>Balance on the technical account – general business</b>		43,663	35,583
Investment income	9	7,346	8,216
Investment expenses and charges	9	(580)	(581)
Realised and unrealised gains on investments	9	1,327	2,384
Realised and unrealised losses on investments	9	(3,758)	(4,018)
Allocated investment return transferred to general business technical account	9	(4,335)	(6,001)
Non-technical account income	10	251	563
Gain/ (Loss) on foreign exchange		(295)	6,556
<b>Profit for the financial year</b>		<u>43,619</u>	<u>42,702</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 and 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 2017**

	<b>Notes</b>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Investments</b>			
Other financial investments	11	544,907	601,825
Deposits with ceding undertakings		106	91
		<hr/>	<hr/>
		545,013	601,916
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	15	26,555	30,313
Claims outstanding	15	251,540	248,257
		<hr/>	<hr/>
		278,095	278,570
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	108,259	113,176
Debtors arising out of reinsurance operations		58,456	66,402
Other debtors	21	7,737	6,342
		<hr/>	<hr/>
		174,452	185,920
<b>Other assets</b>			
Cash at bank and in hand		15,941	16,481
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	13	68,033	67,137
		<hr/>	<hr/>
<b>Total assets</b>		<b>1,081,534</b>	<b>1,150,024</b>
		<hr/> <hr/>	<hr/> <hr/>

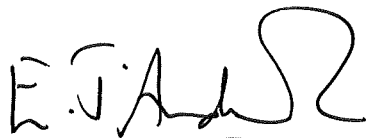
The notes on pages 18 to 49 form an integral part of these annual accounts.



# BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
<b>Capital and reserves</b>			
Members' balances		88,896	45,557
<b>Technical provisions</b>			
Provision for unearned premiums	15	210,675	234,953
Claims outstanding	15	670,419	744,848
Provision for other risks and charges		871	637
		<hr/>	<hr/>
		881,965	980,438
<b>Creditors</b>			
Creditors arising out of direct insurance operations	17,18	20,241	19,269
Creditors arising out of reinsurance operations	17,19	87,212	82,455
Other creditors	17,20	3,134	21,885
Accruals and Deferred income	17	86	420
		<hr/>	<hr/>
		110,673	124,029
<b>Total liabilities and equity</b>		<hr/>	<hr/>
		1,081,534	1,150,024

The Syndicate annual accounts on pages 12 to 49 were approved by the Board of Munich Re Syndicate Limited on 13 March 2018 and were signed on its behalf by



**E J Andrewartha**  
Non-Executive Chair

13 March 2018

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 2017**

	Notes	2017 £000	2016 £000
Members' balance brought forward at 1 January		45,557	31,119
Profit for the financial year		43,619	42,702
Net transfer to members' personal reserve funds	22	(280)	(28,264)
<b>Members' balance carried forward at 31 December</b>		<u>88,896</u>	<u>45,557</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 2017**

	Notes	2017 £000	2016 £000
<b>Net cash flows from operating activities</b>			
Profit for the financial year		43,619	42,702
<i>Adjustments:</i>			
Realised and unrealised loss on cash and other financial investments including foreign exchange		(5,736)	(3,870)
Investment return		(4,586)	(6,564)
Investment income received		7,458	8,839
<i>Movements in operating assets and liabilities:</i>			
(Decrease)/Increase in gross technical provisions		(98,707)	104,616
Decrease/(Increase) in reinsurers' share of gross technical Provisions		475	(91,810)
Decrease in debtors		10,572	14,812
(Decrease)/Increase in creditors		(13,121)	13,705
Acquisitions of other financial instruments		(573,948)	(883,833)
Proceeds from sale of other financial investments		584,954	907,383
(Decrease)/Increase in deposits with ceded undertakings including foreign exchange		49,689	(78,926)
<b>Net cash inflow from operating activities</b>		669	27,054
<b>Cash flows from financing activities:</b>			
Net transfer to member in respect of underwriting participations		(280)	(28,264)
<b>Net cash outflow from financing activities</b>		(280)	(28,264)
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		389	(1,210)
Cash and cash equivalents at 1 January		21,370	22,580
<b>Cash and cash equivalents at 31 December</b>	23	21,759	21,370

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. USE OF JUDGEMENTS AND ESTIMATES

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

### (a) Claims Reserving

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

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

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

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

### (b) Premium Estimates

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

**(a) Gross Premiums Written**

Gross Premiums Written comprise premiums on contracts 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.

### 3. 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.

#### (g) 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) 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 and 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.

### 3. SIGNIFICANT 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.

#### (i) **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.

#### (j) **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 Managing Agent, being invested with Barclays Stockbrokers. Contributions to the scheme are charged to the Statement of Profit and Loss so as to spread the cost of pensions over employees working lives with the Managing Agent 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 Managing Agent offered a Group Self Invested Pension Scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.



**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The most recent triennial valuation showed that there was a surplus of 4% in the scheme which was the equivalent to £5m.

**(k) Profit Commission**

The Managing Agent does not charge any profit commission.

**4. 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 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 board's 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.

#### 4. 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.

2017	USA £000	UK £000	Canada £000	Australia £000	Rest of World £000	Total £000
<b>Direct insurance:</b>						
Marine, Energy, Aviation and Transport	30,640	3,102	9,997	719	162,662	207,120
Fire and other damage to property	2,649	864	141	49	40,450	44,153
Third party liability	267	4,877	617	-	8,929	14,690
Accident & Health	-	-	-	-	7,582	7,582
Motor	734	-	-	-	-	734
	34,290	8,843	10,755	768	219,623	274,279
Reinsurance	8,788	47	369	20	139,947	149,171
<b>Total</b>	<b>43,078</b>	<b>8,890</b>	<b>11,124</b>	<b>788</b>	<b>359,570</b>	<b>423,450</b>

2016 (Restated)	USA £000	UK £000	Canada £000	Australia £000	Rest of World £000	Total £000
<b>Direct insurance:</b>						
Marine, Energy, Aviation and Transport	36,037	2,207	2,372	536	160,474	201,626
Fire and other damage to property	2,796	52	217	16	31,481	34,562
Third party liability	99	2,509	-	-	267	2,875
Accident & Health	-	-	-	-	10,083	10,083
	38,932	4,768	2,589	552	202,305	249,146
Reinsurance	6,397	36	467	267	99,925	107,092
<b>Total</b>	<b>45,329</b>	<b>4,804</b>	<b>3,056</b>	<b>819</b>	<b>302,230</b>	<b>356,238</b>

#### 4. 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:

	2017 £000		2016 £000	
	5 percent increase	5 percent decrease	5 percent increase	5 percent decrease
Gross claims outstanding	(33,521)	33,521	(37,242)	37,242
Net claims outstanding	(20,944)	20,944	(24,830)	24,830

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.

#### 4. 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 Citbank 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
	AAA	AA	A	BBB	<BBB	Not rated	
	£000	£000	£000	£000	£000	£000	£000
<b>Current Year – 2017</b>							
Shares and other variable yield securities and unit trusts	-	-	-	-	-	-	-
Debt securities	349,154	80,657	43,560	55,349	-	-	528,720
Participation in investment pools	-	-	-	-	-	-	-
Deposits with credit institutions	6,546	1,479	1,381	937	27	5,817	16,187
Deposits with ceding undertakings	-	-	-	-	-	106	106
Reinsurer' share of claims outstanding	-	111,399	120,576	11,561	-	8,004	251,540
Insurance debtors	-	-	-	-	-	106,868	106,868
Other debtors	-	-	-	-	-	7,737	7,737
Reinsurance debtors	-	1,009	1,146	(7)	-	50,654	52,802
Cash at bank and in hand	-	-	15,934	-	-	7	15,941
<b>Total credit risk</b>	<b>355,700</b>	<b>194,544</b>	<b>182,597</b>	<b>67,840</b>	<b>27</b>	<b>179,193</b>	<b>979,901</b>

**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2017 (Continued)**

**4. RISK AND CAPITAL MANAGEMENT (continued)**

	Credit rating relating to financial assets that are neither past due nor impaired					Not rated	Total
	AAA	AA	A	BBB	<BBB		
	£000	£000	£000	£000	£000	£000	£000
<b>Previous Year – 2016 (Restated)</b>							
Shares and other variable yield securities and unit trusts	-	-	-	-	-	-	-
Debt securities	394,083	75,233	45,142	66,984	-	-	581,442
Participation in investment pools	-	-	-	-	-	-	-
Deposits with credit institutions	8,969	2,581	1,827	593	-	6,413	20,383
Deposits with ceding undertakings	-	-	-	-	-	91	91
Reinsurer' share of claims outstanding	-	68,205	178,916	19	580	537	248,257
Insurance debtors	-	-	-	-	-	112,683	112,683
Other debtors	-	-	-	-	-	6,342	6,342
Reinsurance debtors	-	1,337	2,923	-	-	54,414	58,674
Cash at bank and in hand	-	2,153	14,311	-	-	17	16,481
<b>Total credit risk</b>	<u>403,052</u>	<u>149,509</u>	<u>243,119</u>	<u>67,596</u>	<u>580</u>	<u>180,497</u>	<u>1,044,353</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.

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.

4. RISK AND CAPITAL MANAGEMENT (continued)

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

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Total £000
	Neither due nor impaired £000	Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	£000	
<b>Current Year – 2017</b>							
Insurance debtors	106,868	1,255	24	51	61	-	108,259
Reinsurance debtors	52,802	474	2,670	1,965	554	(9)	58,456
Other debtors	7,737	-	-	-	-	-	7,737
<b>Total credit risk</b>	<b>167,407</b>	<b>1,729</b>	<b>2,694</b>	<b>2,016</b>	<b>615</b>	<b>(9)</b>	<b>174,452</b>

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Total £000
	Neither due nor impaired £000	Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	£000	
<b>Previous Year – 2016 (Restated)</b>							
Insurance debtors	112,683	465	5	4	19	-	113,176
Reinsurance debtors	58,674	3,266	2,114	1,368	989	(9)	66,402
Other debtors	6,342	-	-	-	-	-	6,342
<b>Total credit risk</b>	<b>177,699</b>	<b>3,731</b>	<b>2,119</b>	<b>1,372</b>	<b>1,008</b>	<b>(9)</b>	<b>185,920</b>

4. 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
<b>Current Year –2017</b>						
<b>Financial assets</b>						
Shares and other variable yield securities and units in unit trusts	-	-	-	-	-	-
Debt securities and other fixed income securities	-	135,172	319,423	67,799	6,326	528,720
Participation in investment pools	-	-	-	-	-	-
Deposits with credit institutions	5,811	3,975	5,202	969	230	16,187
Insurance debtors	-	108,239	20	-	-	108,259
Reinsurance debtors	-	58,456	-	-	-	58,456
Other debtors	-	7,737	-	-	-	7,737
Cash at bank and in hand	-	15,941	-	-	-	15,941
<b>Total</b>	<b>5,811</b>	<b>329,520</b>	<b>324,645</b>	<b>68,768</b>	<b>6,556</b>	<b>735,300</b>
<b>Financial liabilities</b>						
Creditors	-	110,318	269	-	-	110,587
Provision for other risks and charges	871	-	-	-	-	871
<b>Total</b>	<b>871</b>	<b>110,318</b>	<b>269</b>	<b>-</b>	<b>-</b>	<b>111,458</b>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2017 (Continued)

4. 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
<b>Previous Year –2016 (Restated)</b>						
<b>Financial assets</b>						
Shares and other variable yield securities and units in unit trusts	-	-	-	-	-	-
Debt securities and other fixed income securities	-	252,696	273,832	46,751	8,163	581,442
Participation in investment pools	-	-	-	-	-	-
Deposits with credit institutions	-	10,360	7,996	1,784	243	20,383
Insurance debtors	-	112,798	378	-	-	113,176
Reinsurance debtors	-	66,402	-	-	-	66,402
Other debtors	-	6,342	-	-	-	6,342
Cash at bank and in hand	-	16,481	-	-	-	16,481
<b>Total</b>	-	465,079	282,206	48,535	8,406	804,226
<b>Financial liabilities</b>						
Creditors	-	123,178	431	-	-	123,609
Provision for other risks and charges	637	-	-	-	-	637
<b>Total</b>	637	123,178	431	-	-	124,246



4. 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 United States dollars, Euros 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
<b>Current year - 2017</b>						
Total assets	116,344	859,623	63,310	31,471	10,786	1,081,534
Total liabilities	(166,733)	(743,527)	(50,541)	(31,837)	-	(992,638)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net assets</b>	<u>(50,389)</u>	<u>116,096</u>	<u>12,769</u>	<u>(366)</u>	<u>10,786</u>	<u>88,896</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	GBP £000	USD £000	EUR £000	CAD £000	OTHER £000	Total £000
<b>Previous year - 2016</b>						
Total assets	78,157	973,321	57,848	25,916	14,782	1,150,024
Total liabilities	(152,922)	(873,133)	(56,462)	(21,950)	-	(1,104,467)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net assets</b>	<u>(74,765)</u>	<u>100,188</u>	<u>1,386</u>	<u>3,966</u>	<u>14,782</u>	<u>45,557</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2017 (Continued)**

**4. 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.

<b>Current year - 2017</b>	<b>GBP £000</b>	<b>USD £000</b>	<b>EUR £000</b>	<b>CAD £000</b>	<b>OTHER £000</b>	<b>Total £000</b>
5 percent appreciation	-	5,805	638	(18)	539	6,964
5 percent depreciation	-	(5,805)	(638)	18	(539)	(6,964)
<b>Previous year - 2016</b>	<b>GBP £000</b>	<b>USD £000</b>	<b>EUR £000</b>	<b>CAD £000</b>	<b>OTHER £000</b>	<b>Total £000</b>
5 percent appreciation	-	5,009	69	198	739	6,015
5 percent depreciation	-	(5,009)	(69)	(198)	(739)	(6,015)

*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.

	<b>2017 £000</b>	<b>2016 £000</b>
<b>Interest rate risk</b>		
Impact of 50 basis point increase on net assets	(4,977)	(4,605)
Impact of 50 basis point decrease on net assets	4,977	4,605

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.

#### 4. 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, the Lloyd's capital setting processes use a capital requirement set at the syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at the overall and member level, 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 2017 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 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 2017 (Continued)**

**5. ANALYSIS OF UNDERWRITING RESULT**

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

2017	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000
<b>Direct insurance:</b>						
Marine, Energy, Aviation and Transport	207,120	223,314	(103,886)	(88,127)	(8,293)	23,008
Fire and other damage to property	44,153	41,031	(22,511)	(15,221)	(4,075)	(776)
Third party liability	14,690	9,452	(4,445)	(4,356)	786	1,437
Accident & Health	7,582	9,534	(9,255)	(4,094)	(671)	(4,486)
Motor (other classes)	734	634	(1,449)	(375)	398	(792)
	<u>274,279</u>	<u>283,965</u>	<u>(141,546)</u>	<u>(112,173)</u>	<u>(11,855)</u>	<u>18,391</u>
Reinsurance	<u>149,171</u>	<u>148,012</u>	<u>(79,491)</u>	<u>(51,663)</u>	<u>4,079</u>	<u>20,937</u>
<b>Total</b>	<u><u>423,450</u></u>	<u><u>431,977</u></u>	<u><u>(221,037)</u></u>	<u><u>(163,836)</u></u>	<u><u>(7,776)</u></u>	<u><u>39,328</u></u>

2016	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross* Operating Expenses £000	Reinsurance Balance £000	Total £000
<b>Direct insurance:</b>						
Marine, Energy, Aviation and Transport	201,626	238,035	(155,694)	(86,779)	(3,556)	(7,994)
Fire and other damage to property	34,562	33,623	(17,615)	(13,613)	10	2,405
Third party liability	2,875	1,405	(784)	(551)	(452)	(382)
Accident & Health	10,083	8,486	(3,755)	(5,035)	(258)	(562)
	<u>249,146</u>	<u>281,549</u>	<u>(177,848)</u>	<u>(105,978)</u>	<u>(4,256)</u>	<u>(6,533)</u>
Reinsurance	<u>107,092</u>	<u>141,344</u>	<u>(60,042)</u>	<u>(44,646)</u>	<u>(541)</u>	<u>36,115</u>
<b>Total</b>	<u><u>356,238</u></u>	<u><u>422,893</u></u>	<u><u>(237,890)</u></u>	<u><u>(150,624)</u></u>	<u><u>(4,797)</u></u>	<u><u>29,582</u></u>

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

Brokerage and commission on direct business written was £72.6m (2016: £60.0m).

\*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 2017 or 2016.

**5. ANALYSIS OF UNDERWRITING RESULT (continued)**

The geographical analysis of premiums by destination is as follows:

	2017 £000	2016 £000
UK	423,450	356,238
	<u>423,450</u>	<u>356,238</u>

**6. NET OPERATING EXPENSES**

	2017 £000	2016 £000
Acquisition costs	144,887	119,238
Change in deferred acquisition costs	(4,881)	9,620
Administrative expenses	23,830	21,766
	<u>163,836</u>	<u>150,624</u>

Administrative expenses include:

	2017 £000	2016 £000
Fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	97	91
Fees payable to the Syndicate auditor and its associates for other services:		
Audit-related assurance services	22	39
Tax advisory services	-	(5)
Other assurance services	68	64
	<u>187</u>	<u>189</u>

Members' standard personal expenses are included within administrative expenses.

## 7. 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:

	2017 £000	2016 £000
Wages and salaries	13,256	11,526
Social security costs	1,851	1,633
Other pension costs	1,041	1,467
	<u>16,148</u>	<u>14,626</u>

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

	2017 £000	2016 £000
Underwriting	61	56
Claims	13	12
Other	62	56
	<u>136</u>	<u>124</u>

## 8. KEY MANAGEMENT PERSONNEL COMPENSATION

Six (2016: Nine) directors of Munich Re Syndicate Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2017 £000	2016 £000
Directors' Emoluments	1,742	1,993
Contributions to pension scheme	41	73
	<u>1,783</u>	<u>2,066</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.

The highest paid director received the following remuneration charged as a Syndicate expense and included within the directors' emoluments above:

	2017 £000	2016 £000
Emoluments	478	459
Contributions to pension scheme	10	21
	<u>488</u>	<u>480</u>

**8. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

The chief underwriting officer received the following remuneration charged as a Syndicate expense and included within the directors' emoluments above:

	2017 £000	2016 £000
Emoluments	457	452
Contributions to pension scheme	-	-
	<u>457</u>	<u>452</u>

**9. INVESTMENT RETURN**

	2017 £000	2016 £000
<b>Investment income</b>		
Income from investments	7,346	8,216
Gains on the realisation of investments	921	1,059
Unrealised gains on investments	406	1,325
	<u>8,673</u>	<u>10,600</u>
<b>Investment expenses and charges</b>		
Investment management expenses	(580)	(581)
Losses on the realisation of investments	(1,060)	(999)
Unrealised losses on investments	(2,698)	(3,019)
	<u>(4,338)</u>	<u>(4,599)</u>
<b>Total investment return</b>	<u>4,335</u>	<u>6,001</u>

**9. 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.

	2017 £000	2016 £000
<b>Average amount of syndicate funds available for investment during the year</b>		
Sterling	78,467	78,981
Euro	22,835	22,879
US dollar	448,095	514,966
Canadian dollar	18,135	18,702
	<hr/>	<hr/>
<b>Average funds available for investment, in Sterling</b>	567,532	635,528
	<hr/>	<hr/>
<b>Total investment return</b>	4,335	6,001
	<hr/>	<hr/>
<b>Annual investment yield</b>	%	%
Sterling	0.2	0.7
Euro	(2.2)	(2.5)
US dollar	1.0	1.2
Canadian dollar	0.4	0.5
	<hr/>	<hr/>
<b>Total annual investment yield, in %</b>	0.8	0.9
	<hr/>	<hr/>

**10. NON-TECHNICAL ACCOUNT INCOME/CHARGES**

The non-technical account income of £251k (2016: £563k) reflects investment income earned on Funds in Syndicate deposited by MRCL into the Syndicate's Premium Trust Fund.



# 11. OTHER FINANCIAL INVESTMENTS

	Fair value		Cost	
	2017 £000	2016 £000	2017 £000	2016 £000
Shares and other variable yield securities and units in unit trusts	-	-	-	-
Debt securities and other fixed income securities	528,720	581,442	530,920	584,125
Participation in investment pools	-	-	-	-
Deposits with credit institutions	16,187	20,383	16,187	20,383
	<u>544,907</u>	<u>601,825</u>	<u>547,107</u>	<u>604,508</u>

All Debt securities and other fixed income securities are highly liquid and marketable. These comprise 97.0% (2016: 96.6%) of the total market value of investments.

Included within the fair value of financial investments is accrued income of £2.5m (2016: £2.1m).

Included within Deposits with credit institutions are Overseas deposits of £16,180k (2016: £20,376k) held at fair value (see note 14).

## Valuation hierarchy

The Syndicate 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 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3 – Inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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
<b>Current Year - 2017</b>				
Shares and other variable yield securities and units in unit trusts	-	-	-	-
Debt securities and other fixed income securities	-	528,720	-	528,720
Participation in investment pools	-	-	-	-
Loans and deposits with credit institutions	6,971	9,216	-	16,187
<b>Total</b>	<u>6,971</u>	<u>537,936</u>	<u>-</u>	<u>544,907</u>

11. OTHER FINANCIAL INVESTMENTS (continued)

	Fair value hierarchy £000			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Previous Year – 2016</b>				
Shares and other variable yield securities and units in unit trusts	-	-	-	-
Debt securities and other fixed income securities	-	581,100	342	581,442
Participation in investment pools	-	-	-	-
Loans and deposits with credit institutions	8,139	12,244	-	20,383
<b>Total</b>	<u>8,139</u>	<u>593,344</u>	<u>342</u>	<u>601,825</u>

12. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017 £000	2016 £000
Due from intermediaries:		
Due within one year	108,239	112,798
Due after one year	20	378
	<u>108,259</u>	<u>113,176</u>

13. DEFERRED ACQUISITION COSTS

	2017 £000	2016 £000
Balance at 1 January	67,137	68,403
Movement in deferred acquisition costs	4,881	(9,620)
Effect of movements in exchange rates	(3,985)	8,354
<b>Balance at 31 December</b>	<u>68,033</u>	<u>67,137</u>

#### 14. 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, £7k (2016: £17k) is recognised as cash and £16,180k (2016: £20,376k) is recognised as Other Financial Investments.

	2017 £000	2016 £000
Illinois Deposit	416	537
Joint Asset Trust Funds	1,081	1,324
Additional Securities Limited	5,939	6,671
South African Trust Deed	164	129
Australian Trust Fund	4,863	8,377
Other Funds	3,724	3,355
	<hr/>	<hr/>
<b>Overseas Deposits</b>	<b>16,187</b>	<b>20,393</b>
	<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.

Other Funds is predominantly consists of the Syndicates Canadian Margin Fund.

**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2017 (Continued)**

**15. TECHNICAL PROVISIONS**

	<b>2017</b>			<b>2016</b>		
	<b>Gross Provisions £000</b>	<b>Reinsurance assets £000</b>	<b>Net £000</b>	<b>Gross Provisions £000</b>	<b>Reinsurance assets £000</b>	<b>Net £000</b>
<b>Claims outstanding:</b>						
Balance at 1 January	744,848	(248,257)	496,591	612,805	(155,831)	456,974
Change in claims outstanding	(26,472)	(19,928)	(46,400)	29,419	(58,772)	(29,353)
Effect of movements in exchange rates	(47,957)	16,645	(31,312)	102,624	(33,654)	68,970
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	670,419	(251,540)	418,879	744,848	(248,257)	496,591
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Claims notified	235,846	(55,728)	180,118	301,727	(89,780)	211,947
Claims incurred but not reported	434,573	(195,812)	238,761	443,121	(158,477)	284,644
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	670,419	(251,540)	418,879	744,848	(248,257)	496,591
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Unearned premiums:</b>						
Balance at 1 January	234,953	(30,313)	204,640	262,380	(30,928)	231,452
Change in unearned premiums	(8,527)	(254)	(8,781)	(66,655)	9,407	(57,248)
Effect of movements in exchange rates	(15,751)	4,012	(11,739)	39,228	(8,792)	30,436
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	210,675	(26,555)	184,120	234,953	(30,313)	204,640
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

*Claims outstanding*

The 2017 net technical result of £43.7m (2016: £35.6m) includes £51.2m (2016: £40.4m) of releases from reserves in respect of prior accident years.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2017 (Continued)

16. 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 2017 in all cases.

Claims development table gross of reinsurance

	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
<b>Estimate of cumulative claims</b>								
At end of underwriting year	(129,388)	(136,729)	(154,209)	(148,500)	(153,707)	(125,343)	(165,196)	
One year later	(247,366)	(281,831)	(311,961)	(284,075)	(287,333)	(264,557)		
Two years later	(259,468)	(301,224)	(311,865)	(277,662)	(252,753)			
Three years later	(254,518)	(294,753)	(292,244)	(252,538)				
Four years later	(270,539)	(296,471)	(297,039)					
Five years later	(266,768)	(278,716)						
Six years later	(268,044)							
Less Gross claims paid	245,037	243,595	243,207	196,037	155,607	91,941	19,252	
Gross claims reserve	(23,007)	(35,121)	(53,832)	(56,501)	(97,146)	(172,616)	(145,944)	(584,167)
Gross claims reserve for 2010 and prior years								(86,252)
<b>Total Gross claims reserve</b>								<b>(670,419)</b>

16. CLAIMS DEVELOPMENT (continued)

Claims development table net of reinsurance

Estimate of cumulative claims	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
At end of underwriting year	(110,523)	(118,143)	(138,639)	(107,175)	(93,888)	(80,296)	(79,913)	
One year later	(209,374)	(247,132)	(269,466)	(219,352)	(192,319)	(169,538)		
Two years later	(215,610)	(267,987)	(267,354)	(213,420)	(186,782)			
Three years later	(208,027)	(255,135)	(248,635)	(196,301)				
Four years later	(213,262)	(257,056)	(251,214)					
Five years later	(213,075)	(247,749)						
Six years later	(210,208)							
Less Net claims paid	194,041	212,669	201,078	156,351	118,188	76,508	19,142	
	<u>(16,167)</u>	<u>(35,080)</u>	<u>(50,136)</u>	<u>(39,950)</u>	<u>(68,594)</u>	<u>(93,030)</u>	<u>(60,771)</u>	<u>(363,728)</u>
Net claims reserve								(55,151)
Net claims reserve for 2010 and prior years								
Total Net claims reserve								<u>(418,879)</u>

**17. FINANCIAL LIABILITIES AT AMORTISED COST**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Creditors arising out of direct insurance operations	20,241	19,269
Creditors arising out of reinsurance operations	87,212	82,455
Other creditors	3,134	21,885
Accruals and deferred income	86	420
	<u>110,673</u>	<u>124,029</u>

**18. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Arising out of direct insurance operations intermediaries:		
Due within one year	20,241	18,966
Due after one year	-	303
	<u>20,241</u>	<u>19,269</u>

**19. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Arising out of reinsurance operations intermediaries:		
Due within one year	86,943	82,327
Due after one year	269	128
	<u>87,212</u>	<u>82,455</u>

**20. OTHER CREDITORS**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Due within one year:		
Amount due to Managing Agent	-	16,412
Amount due to service companies	3,134	4,596
Other	-	877
	<u>3,134</u>	<u>21,885</u>

## 21. OTHER DEBTORS

	2017 £000	2016 £000
Due within one year:		
Amount due to Managing Agent	404	-
Amount due to service companies	6,300	4,596
Other	1,033	1,746
	<hr/>	<hr/>
	7,737	6,342
	<hr/>	<hr/>

## 22. GROSS DISTRIBUTION PAYABLE

The gross distribution payable to the member was £71.7m (2016: £32.3m) of which US\$54.0m (equiv. £39.9m, 2016: £4.0m) were 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.

The Syndicate received a cash injection of £31.5 from the corporate member.

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.

## 23. CASH AND CASH EQUIVALENTS

	2017 £000	2016 £000
Cash at bank and in hand	15,941	16,481
Other Financial Investments	5,818	4,889
	<hr/>	<hr/>
	21,759	21,370
	<hr/>	<hr/>

Cash at bank and in hand includes £3m (2016: £3.6m) 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 Munich Re 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.



## 24. RELATED PARTIES

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

Munich Re Syndicate Limited is wholly owned by Munich Re Specialty Group Ltd (MRSGL), which is wholly owned by Munich Re. The Syndicate placed a total of £19.9m (2016: £6.3m) reinsurance premium with its ultimate parent undertaking under 9 (2016: 11) different contracts for the 2017 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 2017 the Syndicate wrote reinsurance contracts with other Munich Re group companies including American Alternative Insurance Corporation, Great Lakes Insurance SE, HSB Engineering Insurance Ltd, Beaufort Underwriting Agency Limited and ERGO, the primary insurer of Munich Re. The total premium on these policies was £44.1m (2016: £39.1m). The Syndicate also ceded premium of £1.9m (2016: £0m) with Great Lakes Insurance SE.

The Managing Agent paid licence fees of £148k (2016: £128k) 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 MRSGL.

### **Munich Re Syndicate Limited (‘MRSL’)**

During the year, the Syndicate has paid fees to MRSL, the Managing Agent of the Syndicate, amounting to £850k (2016: £850k). MRSL’s immediate parent company is MRSGL.

### **Munich Ergo Asset Management GmbH (‘MEAG’)**

MEAG is Munich Re’s asset management company. The Syndicate paid a total of £579k (2016: £557k) for investment management and accounting services in 2017.

### **Northern Marine Underwriters Limited (‘NMU’)**

NMU is a non-profit making service company, indirectly wholly owned by Munich Re Specialty Group Ltd and produces UK provincial Marine business for the Syndicate under a binding authority. Business produced by NMU amounts to approximately 13.5% (2016: 12.5%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

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

Messrs. Artmann, Coskun, Guelfand and Hoare are directors of NMU.

### **Groves, John & Westrup Limited (‘GJW’)**

GJW is a non-profit making service company, wholly owned by Munich Re Specialty Group Ltd and produces predominantly UK Yacht and related business exclusively for the Syndicate under a binding authority. Business produced by GJW amounts to approximately 3.8% (2016: 5.7%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

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

Messrs. Artmann, Coskun and Hoare are directors of GJW.

**24. RELATED PARTIES (continued)**

**Munich Re Syndicate Singapore Pte Limited ('MRSS')**

MRSS is a non-profit making service company owned by Munich Re Specialty Group Ltd and produces Marine business from S.E. Asia exclusively for the Syndicate under a binding authority. Business produced by MRSS amounts to approximately 3.3% (2016: 3.2%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

Mr. Artmann is a director of MRSS.

**Munich Re Syndicate Hong Kong Limited ('MRSHK')**

MRSHK is a non-profit making service company owned by Munich Re Specialty Group Ltd and produces Marine business from S.E. Asia exclusively for the Syndicate under a binding authority. Business produced by MRSHK amounts to 0.5% (2016: 0.4%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

Mr. Artmann is a director of MRSHK.

**Munich Re Syndicate Middle East Limited ('MRSMEL')**

MRSMEL is a service company owned by Munich Re Specialty Group Ltd and produces Marine business from the Middle East exclusively for the Syndicate under a binding authority. Business produced by MRSMEL amounts to approximately 1.2% (2016: 1.0%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

Messrs. Artmann and Coskun are directors of MRSMEL.

**Munich Re Syndicate Labuan Limited ('MRSLAB')**

MRSLAB is a non-profit making service company owned by Munich Re Specialty Group Ltd and produces Marine business from Malaysia exclusively for the Syndicate under a binding authority. MRSLAB commenced trading 1 January 2014. Business produced by MRSLAB amounts to approximately 0.5% (2016: 0.5%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

There were no directors in common between the Syndicate and MRSLAB for 2017.

**Roanoke Insurance Group Inc. ('Roanoke US')**

Roanoke US is an indirectly wholly owned company by Munich Re Specialty Group Ltd and produces Marine business from the USA for the Syndicate under a binding authority. Business produced by Roanoke US amounts to approximately 9.3% (2016: 9.4%) of the estimated earned premium (gross of reinsurance) of the Syndicate in 2017.

Messrs. Artmann, Guelfand and Hoare are directors of Roanoke Group Inc., the parent company of Roanoke Insurance Group Inc.

## 24. RELATED PARTIES (continued)

### Roanoke International Brokers Limited ('RIBL')

RIBL is an insurance broker wholly owned by Munich Re Specialty Group Ltd. RIBL conducts business both with the Syndicate and third parties. The gross brokerage income generated by RIBL in the year ending to 31 December 2017 was £3.9m (2016: £3.8m). A high percentage of this brokerage is from the placement of business through the above mentioned service companies.

There were no directors in common between the Syndicate and RIBL for 2017.

## 25. 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 2017, the value of assets supporting FAL for the 2017 year of account is £39.5m and US\$369.2m (2016: £39.5m and US\$327.0m). 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.

## 26. FUNDS IN SYNDICATE

MRCL holds investments in the Syndicate 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 at the balance sheet date was £106.4m (2016: £34.7m).

## 27. FOREIGN EXCHANGE RATES

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

	2017 Year-end rate	2017 Average rate	2016 Year-end rate	2016 Average rate
Euro	1.13	1.13	1.17	1.22
US dollar	1.35	1.33	1.24	1.35
Canadian dollar	1.69	1.69	1.66	1.79

## 28. POST BALANCE SHEET EVENTS

A distribution of £53.0m to members will be proposed in relation to the 2015 year of account (2016: £71.7m in relation to the 2014 year of account).