

# SYNDICATE 2791

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Report and Financial Statements  
31 December 2009

MAP

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Underwriting at Lloyd's



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## CHAIRMAN'S REPORT

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2007 has produced another very strong result, which is a tribute to the team's technical skill and sound underwriting strategy. As in earlier years, disciplined underwriting, tight control of expenses, and proactive management of capital combined to produce a profit that compares extremely well with other Lloyd's and overseas market participants. The poor investment performance in 2008 was reversed in 2009, and there was a pleasing release from reserves for the closed years, although the reserving approach remains conservative.

While the 2008 year was affected by Hurricanes Ike and Gustav, benign loss experience in most classes of business means that the forecast outcome has gradually improved during 2009. The combination of improved investment results and better-than-expected loss development has encouraged many insurers to compete aggressively for business, and so history begins to repeat itself. A return to normal claims experience will expose books of business throughout the industry as seriously underpriced, and where managers have been tempted to subsidise this business by taking on excessive catastrophe risk, they may find that what now look like robust balance sheets become vulnerable.

All this underlines the need to maintain underwriting integrity throughout the cycle, and as has been made clear elsewhere in this report, Richard and the team are very clearly focused on fundamentals. We have never allowed ourselves to be distracted from the job in hand, and as MAP completes its first decade I am delighted to say that the management philosophy is as clear, straightforward and logical as it was when we first opened our doors. The team is unspoiled by success and uniquely well placed to respond to whatever challenges the financial, competitive or regulatory environments can throw our way.

**D E S Shipley**

*Chairman*

16 March 2010

# SYNDICATE 2791

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Underwriting Year Distribution Accounts  
2007 year of account

# DIRECTORS AND ADMINISTRATION

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## MANAGING AGENT

### Managing Agent

Managing Agency Partners Limited (MAP)

### Directors

C E Dandridge (Non-executive)

J D Denoon Duncan

H R Dumas (Non-executive)

A S Foote (Non-executive)

A Kong

B S McAuley

D E S Shipley (Non-executive Chairman)

C J Smelt

R J Sumner

R K Trubshaw (Active Underwriter)

### Company Secretary

B S McAuley

### Managing Agent's Registered Office

110 Fenchurch Street

London

EC3M 5JT

### Managing Agent's Registration

Registered in England; number: 03985640

## SYNDICATE

### Active Underwriter

R K Trubshaw

### Principal Investment Managers

Schroder Investment Management Limited

### Registered Auditors

Ernst & Young LLP, London

# MANAGING AGENT'S REPORT

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The managing agent presents its report on the 2007 year of account of Syndicate 2791 as closed at 31 December 2009.

These accounts have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Separate annual accounts under UK GAAP on the calendar year results are available to all the syndicate's members (see pages 26 to 52).

The result for the closing year includes the profit and exchange differences arising from retranslation of the balance sheet, and the result for the closed year is identical to that which would have arisen under the former basis of syndicate accounting.

## UNDERWRITER'S REPORT

### 2007 Year of Account

#### *Capacity £459.2 million*

The 2007 year has closed with a profit of £127.7 million after all members' personal expenses, equivalent to 27.8% of stamp capacity, compared with the forecast range of 20% to 25%. The result reflects a pure year result of 23.9% plus a back-year release of £22.1 million.

#### *Development of Closed Years (2006 and prior)*

The 2009 calendar year was notable for historically low utilisation of reserves. Despite the quantum of the back-year release, the remaining completion factors are still comparable to prior year's. The total gross IBNR ("incurred but not reported") pot, less future premiums, has increased slightly from £131.1 million to £132.4 million.

All years aside from a stable 2001 contributed to the back year release. Approximately half arose from the short-tail account, notably 2005 where we enjoyed a substantial subrogated recovery from the Buncefield oil depot explosion.

The hurricanes of 2004 and 2005 continue to develop within expectations.

### Pure Year 2007

#### *Utilisation of capacity*

The final utilisation was 72% at closing rates of exchange. The reinsurance spend was £55 million or 16.5% of Lloyd's gross written premium, 40% of which pertained to the US catastrophe quota share with Syndicate 6103.

#### *Performance review*

The underlying performance of the portfolio was highly satisfactory. The ultimate gross loss ratio of 49.0% is, if not in the same league as 2006, similar to 2002 and 2003. Although the short-tail account came under pressure as the global market recovered its risk appetite after the traumas of 2005, we were still able to achieve sound technical pricing, albeit at reduced volumes compared to 2006. Although incurred losses on the long-tail classes are similar to prior years after 36 months, we have raised the reserving to ultimate to reflect both a weakened rating environment and a more excess of loss portfolio. Offsetting this, it should be noted that the long-tail proportion of the book has fallen from a peak of 25% in 2002/3 to 16% in 2007.

### 2008 Year of Account Forecast

Our forecast range for the 2008 year of account is a profit of 8% to 13% on Stamp Capacity after all expenses. This range has improved by one percentage point over the previous quarter, largely due to the lack of catastrophic activity in 2009.

### Overview 2008 and 2009

Following two largely loss free years, 2008 came under sustained rating pressure across all lines of business. We managed to maintain our pricing integrity, albeit by losing volume – gross premium fell by a third between 2006 and 2008. Autumn 2008 brought two events that served to stabilise the market. Hurricane Ike caused significant damage to Energy platforms in the Gulf of Mexico and some \$18 billion of insured loss onshore, once again confounding many competitors' modelled estimates and throwing the property market into disarray. Coincidentally, turmoil in the capital markets impacted balance sheets and investment yields, putting the focus firmly back on to sound underwriting as the only way to generate positive returns for the insurance industry.

# MANAGING AGENT'S REPORT

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continued

## **Overview 2008 and 2009** *continued*

We were thus reasonably confident going into 2009. As the year unfolded however, the bounce-back in the capital markets, coupled with low loss activity, meant that few lines aside from property catastrophe actually saw rate increases. Premium volume is therefore only slightly up over 2008, although performance to date looks to be highly satisfactory.

## **Class of Business Review for 2008 and 2009**

### ***Direct and facultative property***

Global risk-managed accounts are notoriously difficult to underwrite. Commanding large premium volumes, the insurance placements are subject to significant competition from both brokers and underwriters, such that technical considerations are rarely met for long. At present our focus is on excess of loss, where it is easier to generate an acceptable margin. Small business, particularly via binders, experienced less competitive pressure, and we were better able to maintain our volume. In particular, we have written a reasonable amount of force-placed business in the US, where lending institutions insure their outstanding loan portfolios against physical damage. As foreclosures increase, the banks' inability to absorb these exposures against their weakened balance sheets has generated good business flow.

### ***Property reinsurance***

In September 2008 Hurricane Ike caused significant damage to Texas and the mid-west all the way up into Ohio. Our catastrophe losses remain within initial expectations, and we were able to take advantage of increased opportunities in 2009. Although tornado/hail incidence has been at an historic high, the lack of Atlantic hurricane activity has so far meant overall incurred losses are modest. The risk excess book has shrunk from the heady heights of 2006, where we were able to command attractive premiums on catastrophe exposed accounts, and is now much higher up the risk edifice. The market suffered a spate of major fire losses in 2008, which helped offset the general market softening. 2009 loss incidence has been low.

### ***Third party liability***

The book has continued to reduce in line with the overall syndicate. In contrast to an increasing market appetite for non-correlated risk, often seemingly regardless of price adequacy, our consistent technical pricing meant significant amounts of business failed to meet our margin requirements. We have a negligible D&O book, and any exposure to sub-prime or the credit crunch should be restricted to a few E&O accounts.

### ***Accident and health***

Increasingly under pressure as competitors looked for well-priced, diversified exposure. We have retreated into our core renewal book of mainly sports personal accident.

### ***Marine and offshore energy***

As indicated in last year's report, the 2008 hurricanes had a dramatic impact on this class, Hurricane Ike in particular. The strength and breadth of the wind-field caused losses in excess of most expectations, including ours. A radical reappraisal of the way business is priced, covered and aggregated was undertaken. Unfortunately opportunities in 2009 were severely curtailed by reduced global demand for oil, which meant Gulf values fell dramatically. At the same time, the Energy market stripped back the product it was prepared to offer to such an extent that many buyers felt the risk transfer to be uneconomic. As a result we were unable to increase our position in this sector, our normal stance following major market dislocation.

### ***Terrorism and political risks***

We continue to focus the book away from traditional city-centre property exposures to more eclectic risks, such as terrorism liability or limited nuclear, biological and chemical coverage for hospitals and universities. We have minimal political risk or trade credit exposures, and have no immediate plans to enter this very challenging sector. The insurance industry drift into non-recourse loan guarantees, traditionally the preserve of the banks, has been particularly perplexing.

### ***Specialist lines***

Certain opportunistic sectors were reasonably insulated from the general market decline. The European carnet and US entertainment books continue to generate attractive margins, and in 2009 we re-entered the satellite market via a consortium participation.

# MANAGING AGENT'S REPORT

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continued

## **Motor**

The short-tail element of this largely trucking class continued to perform satisfactorily, although volume is down significantly. It is difficult to compete with package writers who are prepared to underwrite the combined property and liability exposures at combined loss ratios well in excess of 100%.

## **Current Trading Conditions**

In many ways the market is healthier – and therefore softer – than it should otherwise be. 2009 was a good calendar year, not because of rate, but because of the lack of normal loss activity, and by the bounce-back in investment income. Assuming 2010 losses are more in line with historic trends, allied with an imbedded investment yield nearer to 2% than 6%, there is actually not a great deal of fat left in many lines of business. To date there has been little recognition of the fall-out from recessionary claims, particularly on liability classes, while industry releases from back-years appear to be drying up. Meanwhile we are firmly in the 'cheating phase', where the industry borrows off the catastrophe lines to subsidise poorly rated attritional business. If a major loss does not occur, then the target return will be met, but the odds get worse each year that rates are discounted. Commentators often talk about 'waiting for the market to turn', but they forget that that only happens when losses exceed premium to such an extent that the majority in a given class are adversely affected. No pain, no gain.

Last year I wrote that "capital preservation rather than capital efficiency" was the main industry mantra, and I think this still holds true. The problem is the property/casualty insurance industry has been generally very successful in avoiding the cataclysm that affected other financial institutions, such that it is now awash with capital. Given that yields available elsewhere are low, the industry is viewed as well-run, accretive and non-correlated. This fuels competition.

## **The Future**

Capital providers will be well aware that we pre-empted the syndicate to £500 million for 2010, due to the rebasing of sterling under Lloyd's premium income monitoring rules from US\$1.99:1 in 2009 to US\$1.5:1. In US Dollar terms – the currency of nearly 90% of our business – this equates to a slight drop in capacity. For sterling denominated capital providers it is horribly dilutive. Early indications are that, absent any market-changing event, we will likely fall short of our planned income forecasts for 2010. We make no apologies for making the necessary sacrifices on your behalf in order to preserve pricing integrity.

## **Analysis of premium written by syndicate classification**

	Gross written £'000	Net written £'000
Direct and facultative property	53,932	44,291
Third party liability	45,498	43,648
Accident and health	11,929	11,520
Marine and offshore energy	37,994	36,549
Terrorism and political risks	10,292	9,921
Property reinsurance	157,190	128,073
Motor	20,607	19,852
Specialist lines	8,855	8,430
<b>Total</b>	<b>346,297</b>	<b>302,284</b>

## **Investment Return**

Investments contributed £26.06 million to the result for the 2007 account. The return is generated from the assets held by 2007's year of account throughout the last three years. The rates of return in each year were 5.4% in 2007, -1.3% in 2008 and 5.4% in 2009, all net of expenses. The last three years have seen all sides of the investment market from bubble to bust and nearly back again. The portfolio has withstood the storm well. 2007 Year of Account benefited from the good investment return in its final year when the investment pot was boosted by the assets received from 2006's RITC.

# MANAGING AGENT'S REPORT

continued

## Investment Return *continued*

The 2007 Year of Account is allocated its proportion of the calendar return or loss dependent on a formula for estimating the actual assets attributed to the year from the pool of assets held by all years of account. This formula is consistently applied year to year.

## The Effect of Exchange Rates on the Distribution Account

These accounts are reported over the three consecutive years from 2007, and you may recall last year we reported that 25.8% of the 2006 profit was due to the US Dollar strengthening. The effect of the fluctuation of the £:US Dollar exchange rate during this period which saw the US Dollar improve, then weaken, then improve again is a £14.27 million exchange rate gain.

As you receive your profits in both Sterling and US Dollars, the rate of exchange used in accordance with our accounting policies in respect of currency fluctuations in no way affects the currency value of your distributions.

## Reinsurance Debtors

Recoverable amounts from reinsurers amount to £15 million virtually all of which is current. There are no provisions for bad debts on the syndicate's reinsurance balances.

An analysis of the security rating for the debtors on our balance sheet at 31 December is set out below:

### Debt table by security rating

Standard & Poor's rating	On paid claims £m	On outstanding claims £m	On IBNR £m	Total £m
AA and above	1.6	6.7	3.5	11.8
A	0.7	1.3	0.3	2.3
BBB	–	–	–	–
BB and below	–	–	0.7	0.7
	2.3	8.0	4.5	14.8

Of the debtors in the table above with a rating lower than BB, the syndicate has access to £512,000 of assets as security should the reinsurer fail to pay valid claims when they fall due.

## 2008 Year of Account Forecast

An estimate of the 2008 underwriting result as at 36 months is set out below:

	£'000
Stamp capacity	400,588
Gross premiums written	328,924
Net premiums written	282,581
Claims incurred – net of reinsurance	(161,030)
Net operating expenses	(74,325)
Investment return	15,492
Profit commission	(10,111)
Personal expenses	(4,942)
<b>Estimate of profit for the year of account after personal expenses</b>	<b>47,665</b>

Assumptions underlying the 2008 Estimated Result:

- (i) There will be no material reinsurance failures.
- (ii) Syndicate expenses, incurred in the calendar year 2010 to be charged to the 2008 year of account, will continue the pattern of previous years as refined by current budgets.
- (iii) Exchange rates at 31 December 2010 will not be materially different from those at 31 December 2009.
- (iv) Investment returns attributable to 2008 during 2010: Stg 2.5%, Can\$ 2.5%, Euro 2.5% and US\$ 2.5%.
- (v) Claims will be paid in line with our expected development patterns.
- (vi) No material back year surplus or deficit arises from the RITC.

# MANAGING AGENT'S REPORT

continued

## Seven Year Summary of Closed Years of Account

	Note	2001	2002	2003	2004	2005	2006	2007
Syndicate allocated capacity (£m)		139.6	264.2	325.7	325.6	325.6	399.6	459.2
Number of Underwriting Members		3,041	2,895	1,147	1,256	1,359	1,387	1,399
Aggregate net premiums (£m)		164.0	275.8	351.6	317.3	320.1	386.5	302.3
Results for illustrative share of £10,000		%	%	%	%	%	%	%
Utilisation of capacity at premium income								
monitoring rates of exchange		127.0	117.8	108.6	93.8	94.8	86.0	65.6
Gross premiums written (% of illustrative share)		152.1	127.0	122.8	105.3	112.0	104.9	75.4
Net premiums (% of illustrative share)		117.4	104.4	107.9	97.4	98.3	96.7	65.8
(Loss)/profit (% of gross premiums)		(9.6)	34.5	22.6	12.9	5.2	42.8	36.9
Results for illustrative share of £10,000		£	£	£	£	£	£	£
Gross premiums	1	15,206	12,702	12,280	10,526	11,205	10,495	7,542
Net premiums		11,743	10,440	10,794	9,745	9,832	9,672	6,583
Reinsurance to close from an earlier year								
of account		–	1,887	2,624	4,599	5,678	5,489	6,527
Net claims		(5,643)	(3,071)	(3,117)	(4,250)	(5,745)	(3,185)	(2,712)
Reinsurance to close		(3,795)	(3,235)	(4,528)	(6,292)	(7,105)	(5,573)	(6,048)
Underwriting profit		2,305	6,021	5,773	3,802	2,660	6,403	4,350
Acquisition costs	1	(3,345)	(2,667)	(2,605)	(2,294)	(2,473)	(2,211)	(1,621)
Other syndicate operating expenses,								
excluding personal expenses		(515)	(402)	(300)	(152)	(150)	(137)	(148)
Reinsurers' and profit commissions		123	279	299	56	23	20	47
Exchange movement on foreign currency								
translation	2	–	–	96	(70)	67	1,080	320
Net investment income		300	232	287	554	735	253	568
Illustrative personal expenses:								
Managing agent's fee		(65)	(65)	(65)	(55)	(55)	(55)	(55)
Profit commission	4	–	(491)	(509)	(303)	(124)	(716)	(533)
Other personal expenses		(100)	(125)	(104)	(175)	(100)	(150)	(147)
(Loss)/profit after illustrative personal								
expenses and illustrative profit commission		(1,297)	2,782	2,872	1,363	583	4,487	2,781

1. Gross premiums and syndicate operating expenses have been grossed up for brokerage costs and the results for 2001 and 2002 have been restated.
2. The results for 2003 and subsequent years have been stated at average rates; 2001 and 2002 are stated at closing rates.
3. Reinsurance to close for 2003 and subsequent years is stated at relevant average rates applicable or when reserves were first set for each year of account.
4. Profit commission is reported on a pro forma basis before the application of the deficit clause brought forward.

### Disclosure of Information to the Auditors

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

By order of the Board

**R K Trubshaw**

Active Underwriter

Managing Agency Partners Limited

16 March 2010

## STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ('the Lloyd's Regulations') require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December.

The managing agent must prepare the syndicate underwriting year accounts which give a true and fair view of the result of the closed year of account.

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

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

# INDEPENDENT AUDITORS' REPORT

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## to the Members of Syndicate 2791 – 2007 Closed Year of Account

We have audited the syndicate's underwriting year accounts for the 2007 year of account for the three years ended 31 December 2009, which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement, the related notes 1 to 22 and the Statement of Managing Agent's Responsibilities. These underwriting year accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Managing Agent and Auditors**

As described in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of underwriting year accounts in accordance with applicable United Kingdom Generally Accepted Accounting Practice.

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

We report to you our opinion as to whether the underwriting year accounts give a true and fair view of the result of the closed year of account in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you if, in our opinion the Managing Agent's Report is not consistent with the underwriting year accounts, if the managing agent in respect of the syndicate has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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

### **Basis of Audit Opinion**

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

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

### **Opinion**

In our opinion the underwriting year accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the profit of the 2007 closed year of account.

### **Kevin Senior (Senior Statutory Auditor)**

*For and on behalf of Ernst & Young LLP (Statutory Auditor)*

London

16 March 2010

## PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

for the 2007 Closed Year of Account for the three years ended 31 December 2009

	Note		2007 £'000
Syndicate allocated capacity			459,166
<b>Earned premiums, net of reinsurance:</b>			
Gross premiums written	3	346,297	
Outward reinsurance premiums		(44,013)	
<b>Earned premiums, net of reinsurance</b>			<b>302,284</b>
Reinsurance to close premiums received, net of reinsurance	4		299,696
Allocated investment return transferred from the non-technical account			26,060
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(138,990)	
Reinsurers' share		14,448	
		(124,542)	
<b>Reinsurance to close premium payable, net of reinsurance</b>	5, 6	(277,714)	<b>(402,256)</b>
Acquisition expenses		(74,409)	
Reinsurers' commissions and profit participations		2,144	
Administrative expenses	7	(40,076)	
<b>Net operating expenses</b>			<b>(112,341)</b>
Profit on exchange	12		14,269
<b>Balance on the technical account – general business</b>	11		<b>127,712</b>

## PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

for the 2007 Closed Year of Account for the three years ended 31 December 2009

	Note	2007 £'000
<b>Balance on the technical account for general business</b>		127,712
Investment income	10	22,491
Unrealised gains on investments		22,442
Unrealised losses on investments		(10,157)
Investment expenses and charges	10	(8,716)
Allocated investment return transferred to general business technical account		(26,060)
<b>Profit for the 2007 closed year of account</b>		127,712

# BALANCE SHEET

2007 Closed Year of Account as at 31 December 2009

	Note	2007 £'000
<b>Assets</b>		
Investments	13	468,998
Debtors	14	20,260
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	6	12,543
<b>Other assets</b>		
Cash at bank and in hand		8,663
Other		16,554
		25,217
<b>Prepayments and accrued income</b>		
Accrued interest		1,651
Prepayments and other accrued income		–
		1,651
<b>Total assets</b>		<b>528,669</b>
<b>Liabilities</b>		
Amounts due to members	16	127,712
Reinsurance to close premiums payable to close the account – gross amount	6	282,761
Other creditors	17	117,891
Accruals and deferred income		305
<b>Total liabilities</b>		<b>528,669</b>

The financial statements on pages 12 to 24 were approved by the Board of Managing Agency Partners Limited on 16 March 2010 and were signed on its behalf by:

**R K Trubshaw**  
*Active Underwriter*

**R J Sumner**  
*Finance Director*

16 March 2010

## CASH FLOW STATEMENT

for the 2007 Closed Year of Account for the three years ended 31 December 2009

	Note	2007 £'000
Net cash inflow from operating activities	18	64,727
Transfers to members in respect of underwriting participations		–
		<u>64,727</u>
<b>Cash flows were invested as follows:</b>		
Increase in cash holdings	19	8,663
Increase in overseas deposits		218
Net portfolio investment	20	55,846
<b>Net investment of cash flows</b>		<u>64,727</u>

# NOTES TO THE ACCOUNTS

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for the 2007 Closed Year of Account for the three years ended 31 December 2009

## 1. Basis of Preparation

These financial statements have been prepared under regulation 6 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires the aggregation of movements in each of the three calendar years' for any Underwriting Year account. For 2007's Underwriting Year Distribution Account each calendar year result is aggregated using the relevant years' average rate for each item in the profit and loss account. The reinsurance to close received by 2007 from 2006 is presented as both a premium and as part of the reinsurance to close payable at the same rate, which is 2009's opening rate. Any changes made to the opening reinsurance to close are accounted for at the average rate ruling during 2009.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2007 year of account which has been closed by reinsurance to close at 31 December 2009; consequently the balance sheet represents the assets and liabilities of the 2007 year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the three year period until closure.

As each syndicate year of account is a separate annual venture, comparatives are not required to be disclosed.

## 2. Accounting Policies

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

### *Premiums written*

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned.

### *Reinsurance premium ceded*

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

### *Claims paid and related recoveries*

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

### *Reinsurance to close premium payable*

The reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case and class basis, as appropriate, 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. It also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

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

# NOTES TO THE ACCOUNTS

continued

## 2. Accounting Policies *continued*

### *Reinsurance to close premium payable continued*

and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified.

The reinsurers' share 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 estimates 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 consider that the estimates of 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.

### *Reinsurance bad debt*

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

### *Foreign currency translation*

Transactions, other than reinsurance to close, in US Dollars, Canadian Dollars and Euros are translated at the average rates of exchange for each calendar year in which they are booked. Reinsurance to close premiums receivable and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the transaction date. Reinsurance to close premiums payable are included in the technical account at relevant average rates applicable when the change occurred or when reserves were first set.

The reinsurance to close premiums payable are included in the balance sheet at the closing rate.

Balance sheet assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

Where Canadian Dollars or Euros are sold or bought relating to the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States Dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

The following rates of exchange to sterling have been used in the preparation of these accounts.

	Year end rate 2009	2009	Average rates during 2008	2007
USD	1.61	1.57	1.85	2.00
CAD	1.69	1.78	1.96	2.15
EUR	1.13	1.12	1.26	1.46

### *Investments*

Investments are stated at current bid value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the bid price at which they are traded on the balance sheet date or the last trading day before that date.

### *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. The returns on assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and market value at the previous balance sheet date, or purchase price if acquired during the year. 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.

# NOTES TO THE ACCOUNTS

continued

## 2. Accounting Policies *continued*

### *Allocation of investment return*

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are generated by insurance related assets.

### *Operating expenses*

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

### *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.

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 members on underwriting results.

### *Pension costs*

MAP operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

### *Profit commission*

Profit commission is charged by the managing agent at a rate of 17.5% of profit subject to the operation of a deficit clause. This is charged to the syndicate as incurred on an earned basis but does not become payable until after the year of account closes.

## 3. Segmental Analysis

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

	Gross written premiums (note 1) £'000	Gross claims incurred (note 2) £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
<b>Direct insurance (2007 pure)</b>						
Accident and health	10,736	(3,907)	(4,290)	(211)	2,328	1,262
Fire and other damage to property	50,036	(20,146)	(14,757)	(4,567)	10,566	3,155
Marine, Aviation and Transport	31,708	(14,678)	(10,219)	(168)	6,643	5,628
Motor (other classes)	9,042	(6,486)	(3,785)	(35)	(1,264)	1,981
Third party liability	12,328	(8,092)	(5,770)	(474)	(2,008)	6,532
Miscellaneous	4,983	(3,139)	(1,713)	(123)	8	1,104
	118,833	(56,448)	(40,534)	(5,578)	16,273	19,662
<b>Reinsurance (2007 pure)</b>						
	233,343	(81,370)	(72,465)	(30,559)	48,949	54,018
	352,176	(137,818)	(112,999)	(36,137)	65,222	73,680
<b>RITC</b>	313,551	(291,816)	658	(232)	22,161	196,538
<b>Total</b>	665,727	(429,634)	(112,341)	(36,369)	87,383	270,218

Total commissions on direct gross premiums written amount to £24,329,000.

1. Gross premiums earned are identical to gross premiums written.
2. Gross claims incurred comprise gross claims paid and gross reinsurance to close premium payable.
3. All premiums are concluded in the UK.
4. Gross operating expenses include reinsurer's commissions and profit participations.
5. All 2006 and prior year movements are reflected in the RITC line.

# NOTES TO THE ACCOUNTS

continued

### 3. Segmental Analysis *continued*

The geographical analysis of premiums by destination is as follows:

	Direct £'000	Reinsurance £'000	Total £'000
UK	2,697	5,031	7,728
Other EU countries	7,416	7,941	15,357
US	87,194	179,023	266,217
Other	28,443	28,552	56,995
<b>Total</b>	<b>125,750</b>	<b>220,547</b>	<b>346,297</b>

Other, above, includes worldwide income of £47,742,000.

### 4. Reinsurance to Close Premium Receivable

	£'000
Gross reinsurance to close premium receivable	319,430
Reinsurance recoveries anticipated	(19,734)
<b>Reinsurance to close premium receivable, net of reinsurance</b>	<b>299,696</b>

### 5. Movement in Underwriting Reserves

	Reserves £'000	Exchange to closing rate £'000	Closing RITC £'000
2006 and prior			
Opening balance	(299,696)	27,852	(271,844)
Change in year	76,241	(1,611)	74,630
2007 pure			
Change in three year period	(54,095)	(18,745)	(72,840)
Unallocated loss and loss adjustment expenses	(164)	-	(164)
	(277,714)	7,496	(270,218)

The exchange difference arising from the retranslation of the opening reinsurance to close liabilities is exactly matched by the assets transferred in at 1 January 2009 in currency and therefore the effect to the profit and loss account is nil.

### 6. Reinsurance to Close Premium Payable

	2006 and prior £'000	2007 pure £'000	2007 £'000
Gross outstanding claims	94,919	39,927	134,846
Reinsurance recoveries anticipated	(4,803)	(3,232)	(8,035)
Net outstanding claims	90,116	36,695	126,811
Provision for gross claims incurred but not reported	109,277	36,419	145,696
Reinsurance recoveries anticipated	(4,235)	(273)	(4,508)
Provision for net claims incurred but not reported	105,042	36,146	141,188
Unallocated loss and loss adjustment expenses	1,380	839	2,219
Net premium for reinsurance to close	196,538	73,680	270,218

The reinsurance to close is effected to the 2008 year of account of Syndicate 2791.

# NOTES TO THE ACCOUNTS

continued

## 7. Administrative Expenses

	£'000
Personal expenses	9,289
Outwards profit commission	24,456
Other administrative expenses	6,803
(Profit) on exchange	(472)
	40,076

Administrative expenses include:

	£'000
Auditors' remuneration	
Fees for the audit of the syndicate	219
Taxation compliance services	8
Actuarial consultancy services	175

Personal expenses comprise managing agent's fees, profit commission, Lloyd's subscriptions and central fund contributions.

## 8. Staff Numbers and Costs

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

	£'000
Wages and salaries	3,115
Social security costs	355
Other pension costs	311
	3,781

Included above are the employment costs of underwriters attributable to acquisition of business and those of claims staff treated within the technical account as Acquisition Costs and Loss Adjustment Expenses respectively.

The average number of employees employed by the managing agent but working for the syndicate during the three years was as follows:

	Number
Administration and finance	19
Underwriting	22
Claims	4
	45

## 9. Emoluments of the Directors of Managing Agency Partners Limited

The directors of Managing Agency Partners Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	£'000
Emoluments	863

The 2007 year of account has been charged with active underwriters' remuneration as follows:

	£'000
Emoluments – D E S Shipley (Active underwriter to 31 August 2007)	135
– R K Trubshaw (Active underwriter from 1 September 2007)	65
	200

Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

# NOTES TO THE ACCOUNTS

continued

## 10. Investment Return

	£'000
Investment income	
Income from investments	14,332
Gains on the realisation of investments	8,159
	22,491
Investment expenses	
Losses on realisation of investments	(4,946)
Investment management expenses, including interest	(3,770)
	(8,716)

## 11. Balance on Technical Account

	2006 and prior years of account £'000	2007 pure year of account £'000	Total 2007 £'000
Balance excluding investment return and operating expenses	22,175	177,549	199,724
Brokerage and commission on gross premium	1,007	(75,415)	(74,408)
Allocated investment income	–	26,060	26,060
Net operating expenses	(1,021)	(37,383)	(38,404)
Profit on exchange	(377)	15,117	14,740
	21,784	105,928	127,712

## 12. Exchange Differences on Foreign Currency Translation

Exchange differences on foreign currency translation arise as follows:

	£'000
On 2007 balances brought forward: from opening to closing rates	15,224
On transactions during 2009: from average to year end rates	(955)
	14,269

## 13. Financial Investments

	Market value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	75,441	70,236
Debt securities and other fixed income securities	327,733	324,972
Participation in investment pools	60,523	52,326
Other loans	–	–
Deposits with credit institutions	5,301	5,301
	468,998	452,835

## 14. Debtors

	£'000
Arising out of direct insurance operations:	
Due from policyholders	–
Due from intermediaries	3,374
Arising out of reinsurance operations	13,981
Members' agents' fees advances	1,279
Profit commission and overriding commission	1,186
Overseas taxation	440
	20,260

## NOTES TO THE ACCOUNTS

continued

### 15. Other Assets

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

### 16. Amounts Due to Members

	£'000
Profit for the 2007 closed year of account and amount due to members at 31 December 2009	127,712

### 17. Creditors

	£'000
Arising out of direct insurance operations	
Policyholders	–
Intermediaries	362
Arising out of reinsurance operations	24,170
Profit commissions	27,091
Inter-syndicate loan	469
Inter year loan	57,670
Investment settlement	8,129
	117,891

### 18. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	£'000
Operating profit on ordinary activities for the closed year of account	127,712
Realised and unrealised investments losses including exchange movements	43,261
Net reinsurance to close payable	270,217
Decrease in debtors, excluding those received as consideration for RITC	6,414
Decrease in creditors, excluding those received as consideration for RITC	(103,078)
Non-cash consideration for net RITC receivable	
Deposits	(17,892)
Portfolio investments	(454,857)
Debtors	(28,325)
Creditors	221,275
<b>Net cash inflow from operating activities</b>	<b>64,727</b>

### 19. Movement in Opening and Closing Portfolio Investments Net of Financing

	£'000
Net cash inflow	8,663
Cash flow – increase in overseas deposits	218
Cash flow – portfolio investments	55,846
Movement arising from cash flows	64,727
Received as non-cash RITC consideration	
Deposits and portfolio investments	472,749
Changes in market value and exchange rates	(43,261)
Total movement in portfolio investments	494,215
Portfolio at 1 January 2007	–
<b>Portfolio at 31 December 2009</b>	<b>494,215</b>

# NOTES TO THE ACCOUNTS

continued

## 19. Movement in Opening and Closing Portfolio Investments Net of Financing *continued* *Movement in cash, portfolio investments and financing*

	At 1 January 2007 £'000	Cash flow £'000	Received as consideration for net RITC receivable £'000	Changes to market value and currencies £'000	At 31 December 2009 £'000
Cash at bank and in hand	–	(9,717)	19,897	(1,517)	<b>8,663</b>
Overseas deposits	–	218	17,892	(1,556)	<b>16,554</b>
Portfolio investments:					
Shares and other variable yield securities and units in unit trusts	–	36,880	46,683	(8,122)	<b>75,441</b>
Debt securities and other fixed income securities	–	30,531	325,697	(28,495)	<b>327,733</b>
Participation in investment pools	–	14,299	61,446	(15,222)	<b>60,523</b>
Other loans	–	(24,919)	15,438	9,481	–
Deposits with credit institutions	–	(945)	5,593	653	<b>5,301</b>
<b>Total portfolio</b>	–	<b>55,846</b>	<b>454,857</b>	<b>(41,705)</b>	<b>468,998</b>
<b>Total cash, portfolio investments and financing</b>	–	<b>46,347</b>	<b>492,646</b>	<b>(44,778)</b>	<b>494,215</b>

## 20. Net Cash Inflow/(Outflow) on Portfolio Investments

	£'000
Purchase of shares and other variable yield securities	(56,128)
Purchase of debt securities and other fixed income securities	(1,000,383)
Purchase of participation in investment pools	(23,179)
Movement in other loans	24,920
Movement of deposits with credit institutions	945
Sale of shares and other variable yield securities	19,248
Sale of debt securities and other fixed income securities	969,851
Sale of participation in investment pools	8,880
<b>Net cash (outflow) on portfolio investments</b>	<b>(55,846)</b>

## 21. Related Parties

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agency and syndicate.

MAP also manages Syndicate 6103. The underwriting business of Syndicate 6103 is derived solely under a reinsurance contract with Syndicate 2791. Under the terms of this contract, Syndicate 6103 is obliged to accept 30% of all business written by Syndicate 2791 under certain categories of its property catastrophe book. Syndicate 2791 retains the balance of these contracts net for its own account.

Syndicate 2791 receives a ceding commission of 5% of the original gross net premiums written and ceded to Syndicate 6103; additionally, an overriding commission of up to 1.5% of Syndicate 6103's capacity is received to cover personal expenses of Syndicate 6103 names borne by Syndicate 2791. A profit commission of 15% of profits, as defined in the contract, is payable to MAP. All funds are retained and invested by Syndicate 2791 on behalf of Syndicate 6103 and interest is payable (or charged on negative balances) to Syndicate 6103 at rates agreed.

The following transactions between the syndicates occurred for the 2007 year of account:

	£'000
Premiums ceded	(17,133)
Paid claims recovered	345
Ceding commission	855
Overriding commission	629
Interest paid	(1,275)
Interest received	68

# NOTES TO THE ACCOUNTS

continued

## 21. Related Parties *continued*

The directors' interests in the ordinary share capital of MAP Equity Limited, which has an issued share capital of 250,000 £1 shares, at the balance sheet date were as follows:

	A Shares (voting)	B Shares (non-voting)
R K Trubshaw	26,250	–
A Kong	18,750	–
J D Denoon Duncan	–	8,333
B S McAuley	–	12,500
C J Smelt	–	2,500
R J Sumner	–	8,334

Messrs. Denoon Duncan, Kong, Trubshaw, Sumner, Smelt and Ms McAuley, or their related parties, participate on syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited.

MAP Capital Limited commenced underwriting on the 2001 year of account. For the 2007 year of account MAP Capital Limited provided £128,737,500 of capacity on Syndicate 2791 representing 28.0% of capacity. MAP has no direct interest in the share capital of MAP Capital Limited.

Managing agency fees amounting to £2,525,000 were paid to MAP for the 2007 year and profit commission of £27,090,000 is also due to the managing agency in respect of the profit of the 2007 closed year. Expenses totalling £6,766,000 were recharged to this year of account.

Certain functions in relation to administration and systems have been sub-contracted to companies related to Omni Bridgeway BV which has a 9.9% interest in the shares of the intermediate parent company, Managing Agency Partners Holdings Limited. These arrangements are on an arms length basis. The charges for these services for the 2007 year of account totalled £113,000.

The syndicate has an investment in Steadfast International Limited, an equity investment fund managed by Steadfast Capital Management Limited of which Mr Foote, a director of MAP, is the managing director. The syndicate's participation on this fund is at arm's length and the syndicate was charged fees and profit commissions amounting to US\$1.4 million during 2009 on normal commercial terms. Mr Foote, as partner in Steadfast Capital Management Limited will participate in any profits of Steadfast Capital Management Limited.

Separately, a fund under the management of Steadfast Capital Management Limited participates in the syndicate through a corporate vehicle – the syndicate does not invest in this fund.

Messrs Shipley and Kong, directors of MAP, have interests in Steadfast International Limited of US\$1 million and US\$0.25 million respectively. These investments have been made on an arms length basis within their personal investment portfolios.

There are no other transactions or arrangements requiring disclosure.

## 22. Contingent Liabilities

### *Litigation*

In the course of conducting insurance business, the syndicate receives claims in respect of its underwriting activities and becomes involved in actual or threatened litigation arising therefrom including actions in respect of subrogation, asset recovery or coverage disputes. Prudent estimates of costs arising in the defence of all these claims have been made in these accounts. The board of the managing agent considers each action carefully and appropriate provisions are made accordingly. There are provisions amounting to £374,000 at the year end.

### *Letters of credit*

The syndicate has provided letters of credit to certain insureds and reinsureds to cover losses that might arise on their contracts written in the ordinary course of business. These amount to US\$11.8 million; the letters of credit are fully collateralised with cash deposits held by Citibank, on the syndicate's account, of US\$12.2 million.

# SYNDICATE 2791

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Annual Report and Financial Statements under UK GAAP  
Year ended 31 December 2009

# DIRECTORS AND ADMINISTRATION

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## MANAGING AGENT

### Managing Agent

Managing Agency Partners Limited (MAP)

### Directors

C E Dandridge (Non-executive)  
J D Denoon Duncan  
H R Dumas (Non-executive)  
A S Foote (Non-executive)  
A Kong  
B S McAuley  
D E S Shipley (Non-executive Chairman)  
C J Smelt  
R J Sumner  
R K Trubshaw (Active Underwriter)

### Company Secretary

B S McAuley

### Managing Agent's Registered Office

110 Fenchurch Street  
London  
EC3M 5JT

### Managing Agent's Registration

Registered in England; number: 03985640

## SYNDICATE

### Active Underwriter

R K Trubshaw

### Principal Investment Managers

Schroder Investment Management Limited

### Registered Auditors

Ernst & Young LLP, London

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31 December 2009.

The principal activity of the syndicate is that of writing insurance and reinsurance business.

This annual report is prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations').

Separate underwriting year accounts for the closed 2007 year of account are attached to these accounts in the section headed Underwriting Year Distribution Accounts (pages 4 to 24).

## UNDERWRITER'S REPORT

### A Review of the Calendar Year Result

These financial statements are prepared focusing on the calendar year results under UK Generally Accepted Accounting Practices (GAAP) for insurance companies.

The 2009 calendar year produced an annually accounted profit of £141.3 million (2008: profit £25.8 million) on earned premiums of £344.1 million (2008: £309.9 million) gross of acquisition and reinsurance costs.

### *Movement on underwriting years of account during the 2009 calendar year*

	2006 and prior periods £'000	2007 £'000	2007 and prior periods £'000	2008 £'000	2009 £'000	Total £'000	2008 £'000
Gross written premium	(5,879)	(5,501)	(11,380)	(3,405)	339,653	<b>324,868</b>	282,494
Net premium earned	(4,821)	12,897	8,076	95,236	179,480	<b>282,792</b>	274,936
Net claims incurred	26,996	893	27,889	(23,372)	(79,437)	<b>(74,920)</b>	(154,435)
Acquisition costs	1,006	(3,509)	(2,503)	(25,433)	(41,982)	<b>(69,918)</b>	(66,515)
	23,181	10,281	33,462	46,431	58,061	<b>137,954</b>	53,986
Operating expenses	(1,020)	(9,400)	(10,420)	(8,491)	(15,837)	<b>(34,748)</b>	(19,332)
Investment income	–	25,366	25,366	8,478	4,247	<b>38,091</b>	(8,854)
Annual accounted profit	22,161	26,247	48,408	46,418	46,471	<b>141,297</b>	25,800
Currency translation differences	(379)	(10,553)	(10,932)	(923)	(1,172)	<b>(13,027)</b>	75,119
Total recognised gains and losses	21,782	15,694	37,476	45,495	45,299	<b>128,270</b>	100,919
As previously reported	–	90,236	90,236	(7,312)	–	<b>82,924</b>	161,335
Cumulative pure year result	21,782	105,930	127,712	38,183	45,299	<b>211,194</b>	262,254
Distributions and advances						–	(40,833)
Members' balances						<b>211,194</b>	221,421
Net annual accounting ratios:							
Claims ratio						<b>26%</b>	56%
Expense ratio						<b>37%</b>	31%
Combined ratio						<b>63%</b>	87%

There is a considerable volume of premium to be earned in 2010 and unless there is a return to the frequency of natural perils losses seen in 2008 the year should perform satisfactorily.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

## A Review of the Calendar Year Result *continued*

### Written premium in the calendar year by syndicate classification

	2009	2009	2008	2008
	Gross written	Net written	Gross written	Net written
	£'000	£'000	£'000	£'000
Direct and facultative property	59,705	47,498	48,474	37,692
Property reinsurance	184,532	135,787	136,519	111,337
Third party liability	20,116	19,832	22,929	22,747
Accident and health	9,313	9,348	9,493	9,448
Marine and offshore energy	29,832	29,808	31,130	31,139
Terrorism and political risks	7,175	7,175	9,029	9,065
Specialist lines	4,207	4,100	8,784	8,643
Motor	9,988	10,097	16,136	16,355
<b>Total</b>	<b>324,868</b>	<b>263,645</b>	<b>282,494</b>	<b>246,426</b>

### Current Trading Conditions

In many ways the market is healthier – and therefore softer – than it should otherwise be. 2009 was a good calendar year, not because of rate, but because of the lack in normalised loss activity, and by the bounce-back in investment income. Assuming 2010 losses are more in line with historic trends, allied with an imbedded investment yield nearer to 2% than 6%, there is actually not a great deal of fat left in many lines of business. To date there has been little recognition of the fall-out from recessionary claims, particularly on liability classes, while industry releases from back-years appear to be drying up. Meanwhile we are firmly in the ‘cheating phase’, where the industry borrows off the catastrophe lines to subsidise poorly rated attritional business. If a major loss does not occur, then the target return will be met, but the odds get worse each year that rates are discounted. Commentators often talk about ‘waiting for the market to turn’, but they forget that that only happens when losses exceed premium to such an extent that the majority in a given class are adversely affected. No pain, no gain.

Last year I wrote that “capital preservation rather than capital efficiency” was the main industry mantra, and I think this still holds true. The problem is the property/casualty insurance industry has been generally very successful in avoiding the cataclysm that affected other financial institutions, such that it is now awash with capital. Given that yields available elsewhere are low, the industry is viewed as well-run, accretive and non-correlated. This fuels competition.

### The Future

Capital providers will be well aware that we pre-empted the syndicate to £500 million for 2010, due to the rebasing of sterling under Lloyd’s premium income monitoring rules from \$1.99:1 in 2009 to \$1.5:1. In US Dollar terms – the currency of nearly 90% of our business – this equates to a slight drop in capacity. For sterling denominated capital providers it is horribly dilutive. Early indications are that, absent any market-changing event, we will likely fall short of our planned income forecasts for 2010. We make no apologies for taking the necessary sacrifices on your behalf in order to preserve pricing integrity.

## FINANCIAL REPORT

### Investment Return

2009 was a significantly better year for the syndicate investments than 2008. The return for the year was 6.0% (2008: -1.0%) gross of all investment expenses or 5.4% (2008: -1.3%) net of investment expenses.

Our portfolio has clearly benefited from the decisions of both the UK and US governments to expand their balance sheets by purchasing assets. This expansion has serious economic implications, when the purchases stop, inflation rears its head or the longer term economic growth falters. It is clear there will be many ups and downs along the way and although we appear to have avoided a second great depression the future cost on investment return of fiscal easing is as yet unclear.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

We have insulated our investment portfolio from the uncertain future by keeping the duration of securities short and spreading the funds around a number of high quality managers. There is however little doubt that our return in the coming 12 months will be lower than that achieved in 2009, as assets are now more fully valued and the treasury yield is at historically very low levels.

The returns by asset class are set out below. Almost without exception those asset classes that performed poorly in 2008 have produced the best return for 2009. Our allocation to asset classes and managers is constantly under review but adherence to our long term strategy and the maintenance of a balanced asset allocation is more important to us than dipping in and out of classes to try and maximise short term gain.

Asset class	2009		2008	
	Return %	Closing assets as a proportion of portfolio %	Return %	Closing assets as a proportion of portfolio %
Cash/cash liquidity funds	0.9	15.4	3.4	15.8
Equities	21.4	8.4	(25.7)	10.4
Credit bond funds	25.0	5.5	(25.0)	3.3
US treasury bonds	1.0	22.5	4.5	30.5
US agency bonds	1.8	6.1	3.4	1.0
US corporate debt	5.2	29.7	0.6	31.5
US asset backed debt	8.9	8.1	4.5	3.2
Overseas regulatory trust funds	1.5	4.3	6.5	4.3
Return/(loss)	6.0		(1.0)	
Return after charges	5.4		(1.3)	

Other than cash, each of the syndicate's investments is an open ended fund or individual accounts managed by an investment manager to whom we pay a fee.

The key characteristics for each class are described below:

### *Cash and cash liquidity funds*

Either cash at bank or on deposit spread across five different major banks. Our liquidity funds are all AAA rated, predominantly investing in government bonds with no exposure to structured debt. Asset duration is around 60 days.

### *Equities*

We utilise four different funds to invest in equities, two of which have the ability to sell equities short to manage exposure during falling markets. As a consequence of this, the loss in the period is less than the fall in the major equity markets indices.

### *Credit bond funds*

Ten separate open ended bond funds designed to benefit from detailed credit analysis. Each fund is managed by an external specialist investment manager.

### *US treasuries*

US Treasury bills and notes managed by a large US external investment manager. These assets have a duration of around 1.9 years.

### *US agency bonds*

Direct investment in the 100% Government National Mortgage Association (Ginnie Mae). The principle of these bonds has always been that they are US government guaranteed.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

## Investment Return *continued*

### US corporate debt

Senior and subordinate bonds issued by industrial and financial companies, mainly from the US. The average duration of these bonds before redemption is less than one year.

### US asset backed debt

Bonds issued by the finance providers of auto and credit card debt. In the case of credit card debt each bond or trust has a significant level of over collateralisation or credit enhancement.

### Overseas regulated trust funds

Separately regulated trust funds set up to satisfy local regulatory requirement. Each of these funds is managed conservatively by Lloyd's.

The syndicate has no direct investment in residential or commercial mortgage backed securities that are not guaranteed by the US government.

### Valuation risk

Investments are marked to market at bid prices at each period end with all changes taken through the underwriting account. Prices are supplied by external custodians for each investment with the systems adopted by each custodian covered by their own annual audits. In accordance with the custodian systems prices are supplied by at least two pricing vendor sources. The pricing sources use market prices or where it is more appropriate in illiquid markets, pricing models. We reconcile the custodians overall prices to our bond managers records to check for reasonableness. Additional sample checks are made to Bloomberg or exchange market prices and a review by each manager of the proportion of assets they determine have a restriction of market is performed. These reviews revealed no significant differences.

### Rating and the future

Our defence against credit risk is to maintain the rating quality of assets which is one of the main focuses with our bond Managers. The rating of our assets is set out below:

2009	Rating						
	AAA and government %	AA and above %	A %	Not rated %	Equities %	Hedge funds %	Total %
<b>Asset class per balance sheet</b>							
Shares and variable yield securities	–	6.6	4.4	–	4.5	–	15.5
Debt securities	37.2	19.5	14.0	–	–	–	70.7
Participation in investment pools	2.9	–	–	–	–	9.8	12.7
Other loans	–	–	–	–	–	–	–
Deposits with credit institutions	–	–	1.1	–	–	–	1.1
<b>Total</b>	<b>40.1</b>	<b>26.1</b>	<b>19.5</b>	<b>0.0</b>	<b>4.5</b>	<b>9.8</b>	<b>100.0</b>

2008	Rating						
	AAA and government %	AA and above %	A %	Not rated %	Equities %	Hedge funds %	Total %
<b>Asset class per balance sheet</b>							
Shares and variable yield securities	6.0	–	–	–	3.5	–	9.5
Debt securities	53.6	10.8	8.2	0.1	–	–	72.7
Participation in investment pools	3.0	–	–	–	–	10.0	13.0
Other loans	–	–	3.5	–	–	–	3.5
Deposits with credit institutions	–	–	1.3	–	–	–	1.3
<b>Total</b>	<b>62.6</b>	<b>10.8</b>	<b>13.0</b>	<b>0.1</b>	<b>3.5</b>	<b>10.0</b>	<b>100.0</b>

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

The syndicate undertakes no lending of securities and does not undertake exchange rate management. As the syndicate makes profit payments in both US Dollars and GB Pounds, we do not seek to hedge exchange exposure. Lloyd's are custodians of our overseas deposits over which we have no control.

## Currency Translation Differences

Over 90% of the syndicate's assets are held in United States Dollars but as results are published in Sterling changes in the £:US Dollar exchange rate can significantly alter the reported Sterling result. However, capital providers receive distributions in both currencies therefore distributions to capital providers are unaffected by the accounting exchange loss booked.

The accounting exchange loss for the year is £13.03 million (2008: profit £75.13 million). This principally reflects the weakening of the US Dollar against Sterling from the opening rate of 1.44 to the current year end rate of 1.61.

Profit distributions are made in US\$ and converted sterling and to a large extent the depreciation in sterling has little effect on the currency outcome paid to capital providers.

## Reinsurance Balances

There are no provisions for bad debts on the syndicates' reinsurance balances.

An analysis of the security rating for the reinsurance balances on our balance sheet at 31 December is set out below.

### Debt table by security rating

Standard & Poor's rating	On paid claims £m	On outstanding claims £m	On IBNR £m	2009 Total £m	2008 Total £m
AA and above	2.4	11.2	7.2	20.8	30.1
A	13.2	5.0	9.5	27.7	23.0
BBB	–	–	–	–	–
BB and below	–	0.2	0.8	1.0	0.7
	15.6	16.4	17.5	49.5	53.8

Our reinsurance security committee has authorised the use of a number of the insurance companies set up after the 2005 hurricanes. These companies have either no, or a low, Standard and Poor's security rating. As a result they are only accepted on to the syndicate's reinsurance programme if they offer acceptable alternative direct security (Letters of Credit or syndicate specific trust accounts). Of the balances in the table above with a rating lower than BB, the syndicate has access to £512,000 of assets as security should the reinsurer fail to pay valid claims when they fall due.

## Risk Management

We have established a risk management framework whose primary objective is to protect the syndicate from events which negatively impact current and future returns.

### Principal Risks

#### Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover, that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient.

Underwriting strategy is agreed by the Board and set out in the Syndicate Business Plan which is submitted to Lloyd's each year. Processes are in place to identify, quantify and manage aggregate exposures and technical prices within each of our underwriting classes. Reinsurance is purchased, where appropriate to our risk appetite and reduces the retained financial impact of catastrophic loss. Reserves set are subject to stress testing and independent review.

#### Credit risk

Credit risk is the risk of default or the inability of one or more of the syndicate's reinsurers or brokers to settle their debts as they fall due.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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continued

## **Principal Risks** *continued*

### **Credit risk** *continued*

Reinsurance is only placed with security that meets the criteria agreed by the Board. Use is made of independent rating agencies. Business is only accepted through accredited Lloyd's brokers who are reviewed by the Agency's Security Committee and business accepted via binding authority is subject to a process of rolling review. Aggregate exposure to any counterparty is monitored regularly and a robust system of credit control is in place, itself subject to the internal Security Committee. Exposure to investment counterparties is monitored by a specialist investment reporting company and reviewed by the Investment Committee. This Committee includes a non-executive director with expertise in US fund management. Investment guidelines are set and monitored in view of the syndicate's liability exposures and their durations.

### **Liquidity risk**

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. Liquidity management forms an important part of the financial management practices of the syndicate. Cash flow projections and budgetary controls are maintained and reported upon to the Board.

### **Market risk**

Market risk is the potential adverse financial impact of changes in value of financial instruments caused by fluctuations in foreign currency, interest rates or equity prices. The potential impact of market risk elements is reported to the Board and the potential financial impact of changes in market value is monitored through the ICA process.

### **Foreign currency exchange risk**

We operate from the United Kingdom but over 90% of our premiums and claims are settled in currencies other than sterling. Our reported financial results are denominated in sterling and are therefore affected by the exchange rate against sterling of our main currency assets (USD, EUR and CAD). The syndicate settles its surplus assets in both sterling and USD as each underwriting year closes or earlier if a solvency transfer is approved. We do not therefore seek to hedge the USD exposure. Other currencies are tracked against sterling to ensure the amount of exposure is monitored and if needed appropriate action taken.

### **Equity price risk**

We are subject to equity price risk due to changes in the market value of equities. This risk is managed by spreading the investments of equities over a number of investment managers who each specialise in a market sector or type of investment evaluation. The performance of each fund is monitored by the Investment Committee.

### **Interest rate risk**

Interest rate risk arises primarily from the value of our investments. For example debt and fixed income securities are exposed to actual fluctuations or changes in market perception of current or future interest rates. Exposure to interest rate risk is monitored through the use of Value-at-Risk analysis, scenario testing, stress testing and duration reviews. Interest rate risk is managed by matching of assets and liabilities to within five years.

### **Operational risk**

Operational risk is the potential adverse financial and reputational impact of inadequate or failed internal processes, people and systems or from external events. An internal risk assessment process has been developed to assess the potential impact and probability of certain events and a system of internal controls has been implemented to mitigate the risks. These controls have been monitored by Senior Management and the Board whilst their ongoing effectiveness is validated through both the ongoing risk assessment and internal audit process.

### **Regulatory risk**

The agency is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a compliance officer who monitors regulatory developments and assesses the impact on agency policy. She is supported by two assistants who carry out a compliance monitoring programme.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

continued

## CORPORATE GOVERNANCE

### Directors and Directors' Interests

The Directors of the managing agent who served during the year ended 31 December 2009 together with their participations on the syndicate were as follows:

	2009 year of account £'000	2008 year of account £'000
J D Denoon Duncan <sup>(1)</sup>	195	159
H R Dumas	462	462
A S Foote <sup>(3)</sup>	–	–
A Kong <sup>(1)(2)</sup>	764	593
B S McAuley <sup>(1)</sup>	234	142
D E S Shipley (Chairman) <sup>(1)</sup>	3,606	2,974
C Smelt <sup>(1)(2)</sup>	433	267
R J Sumner <sup>(1)</sup>	212	134
R K Trubshaw (Active Underwriter) <sup>(1)</sup>	3,299	1,400
C E Dandridge	–	–

(1) Participate via MAP Capital Limited and Nomina 208 LLP, unaligned corporate members.

(2) Include participations of related parties.

(3) A S Foote, a non-executive director of MAP, is a managing director of Steadfast Advisors, the management company for Steadfast Capital LP, which participates on the syndicate through MAP Capital Limited.

The total capacity of the 2009 year of account of the syndicate was £403,744,344.

### Reappointment of Auditors

Ernst & Young LLP have indicated their willingness to continue in office as the syndicate's auditors.

### Disclosure of Information to the Auditors

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

### Annual General Meeting

As permitted under the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) MAP does not propose holding a Syndicate Annual General Meeting of the members of the Syndicate.

Members may object to this proposal or the intention to reappoint the auditors within 21 days of the issue of these accounts. Any such objection should be addressed to B S McAuley, Compliance Director at the registered office of Managing Agency Partners Limited.

By order of the Board

**R K Trubshaw**

*Active Underwriter*

Managing Agency Partners Limited  
London

16 March 2010

**B S McAuley**

*Secretary*

## STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

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

1. select suitable accounting policies which are applied consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

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

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

# INDEPENDENT AUDITORS' REPORT

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to the Members of Syndicate 2791

We have audited the syndicate's annual accounts for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 26. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of the Managing Agent and Auditors

As described in the Statement of Managing Agent's Responsibilities the managing agent is responsible for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards.

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

We report to you our opinion as to whether the annual accounts give a true and fair view of the state of the syndicate's affairs as at 31 December 2009 and of its profit for the year then ended; have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and have been properly prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you whether in our opinion the information given in the Managing Agent's Report is consistent with the annual accounts.

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

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

## Basis of Audit Opinion

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

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

## Opinion

In our opinion:

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

## Kevin Senior (Senior Statutory Auditor)

*For and on behalf of Ernst & Young LLP (Statutory Auditor)*

London

16 March 2010

# PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2009

	Note	£'000	2009 £'000	£'000	2008 £'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3		324,868		282,494
Outward reinsurance premiums			(61,223)		(36,068)
Net premiums written			263,645		246,426
Change in the provision for unearned premiums:					
Gross amount		19,234		27,442	
Reinsurers' share		(87)		1,068	
Change in the net provision for unearned premiums			19,147		28,510
<b>Earned premiums, net of reinsurance</b>					
<b>Allocated investment return transferred from the non-technical account</b>					
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount	3	(155,418)		(162,422)	
Reinsurers' share		17,555		22,178	
Net claims paid		(137,863)		(140,244)	
Change in the provision for claims					
Gross amount	3	64,192		(8,403)	
Reinsurers' share		(1,249)		(5,788)	
Change in the net provision for claims		62,943		(14,191)	
<b>Claims incurred, net of reinsurance</b>					
Acquisition expenses		(67,128)	(74,920)	(62,493)	(154,435)
Change in deferred acquisition expenses		(2,790)		(4,022)	
Reinsurers' commissions and profit participations		4,755		1,585	
Administrative expenses	5	(39,503)		(20,917)	
<b>Net operating expenses</b>	3		<b>(104,666)</b>		<b>(85,847)</b>
<b>Balance on the technical account for general business</b>					
<b>141,297</b>					
<b>25,800</b>					

All operations are continuing.

## PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Balance on the general business technical account</b>		<b>141,297</b>	<b>25,800</b>
Investment income	8	18,872	22,276
Unrealised gains on investments		29,670	4,050
Unrealised losses on investments		(2,569)	(25,598)
Investment expenses and charges	8	(7,882)	(9,582)
Allocated investment return transferred to general business technical account		(38,091)	8,854
<b>Profit for the financial year</b>		<b>141,297</b>	<b>25,800</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Profit for the financial year		141,297	25,800
Exchange difference on foreign currency translation	10	(13,027)	75,119
<b>Total recognised gains and losses since the last annual report</b>		<b>128,270</b>	<b>100,919</b>

## BALANCE SHEET ASSETS

at 31 December 2009

	Note	£'000	2009 £'000	£'000	2008 £'000
<b>Investments</b>					
Financial investments	11		700,991		757,530
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		12,654		14,179	
Claims outstanding	4	33,876		38,793	
			46,530		52,972
<b>Debtors</b>					
Debtors arising out of direct insurance operations	12	17,337		39,345	
Debtors arising out of reinsurance operations	12	97,465		114,286	
Other debtors	13	13,066		9,812	
			127,868		163,443
<b>Other assets</b>					
Cash at bank and in hand			10,602		31,283
Other	14		23,444		25,379
<b>Prepayments and accrued income</b>					
Accrued interest		2,494		1,945	
Deferred acquisition costs		31,388		37,507	
Other prepayments and accrued income		545		2,303	
			34,427		41,755
<b>Total assets</b>			<b>943,862</b>		<b>1,072,362</b>

## BALANCE SHEET LIABILITIES

at 31 December 2009

	Note	£'000	2009 £'000	£'000	2008 £'000
<b>Capital and reserves</b>					
Members' balances	15		211,194		221,420
<b>Technical provisions</b>					
Provision for unearned premiums		122,150		155,800	
Claims outstanding	4	460,917		577,783	
			583,067		733,583
<b>Creditors</b>					
Creditors arising out of direct insurance operations	16	1,087		714	
Creditors arising out of reinsurance operations	16	88,074		67,217	
Other creditors	17	59,263		48,530	
			148,424		116,461
<b>Accruals and deferred income</b>			1,177		898
<b>Total liabilities</b>			<b>943,862</b>		<b>1,072,362</b>

The financial statements on pages 36 to 52 were approved by the Board of Managing Agency Partners Limited on 16 March 2010 and were signed on its behalf by:

**R K Trubshaw**  
*Active Underwriter*

**R J Sumner**  
*Finance Director*

16 March 2010

## CASH FLOW STATEMENT

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Net cash inflow from operating activities	18	170,953	74,294
Transfer to members in respect of underwriting participations:			
Profits distributed		(137,393)	(18,016)
		<b>33,560</b>	<b>56,278</b>
<b>Cash flows were invested as follows:</b>			
(Decrease)/increase in cash holdings	20	(18,165)	(55,057)
Increase in deposits	20	563	547
Net portfolio investment	20	51,162	110,788
<b>Net investment of cash flows</b>		<b>33,560</b>	<b>56,278</b>

# NOTES TO THE ACCOUNTS

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for the year ended 31 December 2009

## 1. Basis of Preparation

These financial statements have been prepared in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP.

## 2. Accounting Policies

### *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of acquisition costs payable to intermediaries and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified. Differences between such estimates and actual amounts will be recorded in the period in which the actual amounts are determined.

### *Unearned gross premiums*

Written premiums are recognised evenly over the term of the contract for those contracts where the incidence of risk does not vary over the term. Contracts where the incidence of risk differs over the term are earned based on 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.

### *Acquisition costs*

Acquisition costs, comprising commission and other direct or indirect costs related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

### *Reinsurance premium ceded*

Outwards reinsurance purchased consists of excess of loss contracts and proportional reinsurance contracts. Initial excess of loss premiums are accounted for in the year of inception. Premiums ceded to reinstate reinsurance cover or additional premiums payable on loss are recognised when they may be assessed with reasonable certainty. Proportional outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

### *Unearned reinsurance premium*

Reinsurance premiums paid to purchase excess of loss reinsurance contracts are earned evenly over the period at risk. Proportional reinsurance premiums are earned in the same accounting period as the inwards business being reinsured.

### *Claims provisions and related recoveries*

Claims paid comprise claims and claim handling expenses paid during the period.

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 and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

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

# NOTES TO THE ACCOUNTS

continued

## 2. Accounting Policies *continued*

### *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 a provision for reinsurance bad debt, having regard to the reinsurance programme in place for each 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 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.

### *Reinsurance bad debt*

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

### *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 may exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant future investment return. The provision for unexpired risks is included in technical provisions in the balance sheet.

### *Foreign currency translation*

Transactions in US Dollars, Canadian Dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

In accordance with SSAP20, Foreign Currency Translation, assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

All exchange differences arising on retranslation of opening balances and between average and year-end rates are included in the statement of total recognised gains and losses. All other exchange differences are dealt with in the technical account and included within operating expenses.

The following rates of exchange have been used in the preparation of these accounts.

	2009		2008	
	Year end	Average	Year end	Average
USD	1.61	1.57	1.44	1.85
CAD	1.69	1.78	1.77	1.96
EUR	1.13	1.12	1.03	1.26

### *Investments*

Listed and other quoted investments are stated at current bid value at the balance sheet date. For this purpose listed and quoted investments are stated at market value and deposits with credit institutions are stated at cost.

The cost of syndicate investments is deemed to be the aggregate of market value at the previous balance sheet date of those investments still held at the current balance sheet date, and purchases during the period.

# NOTES TO THE ACCOUNTS

continued

## 2. Accounting Policies *continued*

### *Investment return*

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and market value at the previous balance sheet date, or purchase price if acquired during the year.

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.

### *Allocation of investment return*

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

### *Operating expenses*

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

### *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.

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 members on underwriting results.

### *Pension costs*

MAP operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

### *Profit commission*

Profit commission is charged by the managing agent at a rate of 20.0% for the 2009 year of account and of 17.5% for earlier years of account, subject to the operation of a deficit clause. This is charged to the syndicate as incurred on an earned basis but does not become payable until after the appropriate year of account closes, normally at 36 months.

## 3. Segmental Analysis

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

2009	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expense £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
<b>Direct insurance</b>							
Accident and health	8,705	9,549	(3,623)	(3,609)	(13)	2,304	12,715
Motor (third party liability)	1,020	1,647	682	(589)	(1,510)	230	6,410
Motor (other classes)	5,317	6,856	(3,155)	(2,902)	9	808	14,668
Marine, aviation and transport	28,495	31,044	(10,049)	(9,852)	(319)	10,824	56,794
Fire and other damage to property	45,883	45,156	(13,131)	(14,450)	(6,325)	11,250	51,082
Third party liability	7,958	7,628	966	(3,662)	669	5,601	57,655
Miscellaneous	1,655	2,067	(915)	(739)	2	415	2,792
	99,033	103,947	(29,225)	(35,803)	(7,487)	31,432	202,116
Reinsurance accepted	225,835	240,155	(62,001)	(68,863)	(37,517)	71,774	334,421
<b>Total</b>	<b>324,868</b>	<b>344,102</b>	<b>(91,226)</b>	<b>(104,666)</b>	<b>(45,004)</b>	<b>103,206</b>	<b>536,537</b>

# NOTES TO THE ACCOUNTS

continued

## 3. Segmental Analysis *continued*

2008	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expense £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
<b>Direct insurance</b>							
Accident and health	8,875	9,676	(1,652)	(3,334)	310	5,000	16,506
Motor (third party liability)	1,018	3,591	(3,125)	(1,325)	377	(482)	9,853
Motor (other classes)	8,568	9,511	(4,610)	(3,870)	(290)	741	20,447
Marine, aviation and transport	26,826	28,972	(34,204)	(10,241)	(365)	(15,838)	88,351
Fire and other damage to property	43,890	43,243	(20,753)	(12,113)	(3,397)	6,980	76,464
Third party liability	7,479	10,378	(4,034)	(2,329)	(319)	3,696	80,995
Miscellaneous	795	375	(271)	238	29	371	4,100
	97,451	105,746	(68,649)	(32,974)	(3,655)	468	296,716
Reinsurance accepted	185,043	204,190	(102,176)	(52,873)	(14,955)	34,186	383,895
<b>Total</b>	<b>282,494</b>	<b>309,936</b>	<b>(170,825)</b>	<b>(85,847)</b>	<b>(18,610)</b>	<b>34,654</b>	<b>680,611</b>

All premiums were concluded in the UK.

Gross operating expenses include reinsurers' commissions and profit participations.

	2009 £'000	2008 £'000
Total commissions on gross direct premiums earned	<b>24,328</b>	27,540

The geographical analysis of premiums, by destination is as follows:

	Direct	Reinsurance	2009 £'000
UK	2,425	7,751	10,176
Other EU countries	3,664	7,797	11,461
US	68,390	170,942	239,332
Other	22,752	41,147	63,889
<b>Total</b>	<b>97,231</b>	<b>227,637</b>	<b>324,868</b>
10,176			
	Direct	Reinsurance	2008 £'000
UK	2,900	5,629	8,529
Other EU countries	3,493	6,617	10,110
US	70,098	113,944	184,042
Other	26,946	52,867	79,813
<b>Total</b>	<b>103,437</b>	<b>179,057</b>	<b>282,494</b>

Other, above, includes worldwide income of £55,631,000 (2008: £51,025,000).

## NOTES TO THE ACCOUNTS

continued

### 4. Claims Outstanding

A positive run-off of £22 million on the 2008 and prior years' reserves (2007 and prior: £12 million) was experienced during 2009. This change to the previous years' reserves is 4% of the net provisions brought forward. The change in the year was principally due to a favourable run-off during the year of our medical malpractice and property reinsurance book.

	2009 £'000	2008 £'000
Gross outstanding claims	201,743	272,191
Reinsurance recoveries anticipated	(16,361)	(24,950)
Net outstanding claims	185,382	247,241
Provision for gross claims incurred but not reported	254,856	301,594
Reinsurance recoveries anticipated	(17,515)	(13,843)
Provision for net claims incurred but not reported	237,341	287,751
Unallocated loss and loss adjustment expenses	4,318	3,998
Net reserves	427,041	538,990

### 5. Administrative Expenses

	2009 £'000	2008 £'000
Personal expenses	4,109	5,238
Profit commission payable to managing agent	30,094	7,713
Other administrative expenses	6,212	5,313
(Profit)/loss on exchange	(912)	2,653
	39,503	20,917

Administrative expenses include:

	2009 £'000	2008 £'000
Auditors' remuneration		
Fees for the audit of the syndicate	204	185
Taxation compliance services	6	–
Actuarial consultancy services	206	188

Personal expenses comprise managing agent's fees, profit commission, Lloyd's subscriptions and Central fund contributions.

### 6. Staff Numbers and Costs

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

	2009 £'000	2008 £'000
Wages and salaries	3,330	3,155
Social security costs	378	358
Other pension costs	364	340
	4,072	3,853

Included above are the employment costs of underwriters attributable to acquisition of business and those of claims staff treated within the technical account as Acquisition Costs and Loss Adjustment Expenses respectively.

# NOTES TO THE ACCOUNTS

continued

## 6. Staff Numbers and Costs *continued*

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

	2009 Number	2008 Number
Administration and finance	19	20
Underwriting	22	21
Claims	4	4
	<b>45</b>	<b>45</b>

Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

## 7. Emoluments of the Directors of Managing Agency Partners Ltd

The directors of MAP received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2009 £'000	2008 £'000
Emoluments	902	860

The active underwriter received the following remuneration charged as a syndicate expense:

	2009 £'000	2008 £'000
Emoluments – R K Trubshaw	208	199

## 8. Investment Return

	2009 £'000	2008 £'000
Investment income		
Income from investments	10,277	17,452
Gains on the realisation of investments	8,595	4,824
	<b>18,872</b>	<b>22,276</b>
Investment expenses		
Investment management expenses, including interest	4,166	2,020
Losses on the realisation of investments	3,716	7,562
	<b>7,882</b>	<b>9,582</b>

# NOTES TO THE ACCOUNTS

continued

## 9. Calendar Year Investment Yield

Average syndicate funds available for investment:

	2009 000	2008 000
Sterling	31,231	36,245
United States Dollars	1,015,994	1,014,700
Canadian Dollars	30,989	34,898
Euros	36,578	52,014
Combined sterling average syndicate funds available for investment	712,990	643,817
Investment return – gross of investment expenses	42,257	(6,834)

Analysis of calendar year investment yield by currency, before investment expenses:

Sterling	1.3%	4.2%
United States Dollars	6.7%	(0.9%)
Canadian Dollars	0.6%	3.9%
Euros	(0.1%)	(10.1%)
Combined	6.0%	(1.1%)

## 10. Exchange Differences on Foreign Currency Translation

Exchange differences on foreign currency translation arise as follows:

	2009 £'000	2008 £'000
On balances brought forward	(10,097)	66,216
On transactions during 2009: from average to year end rates	(2,930)	8,903
	(13,027)	75,119

## 11. Financial Investments

	Market value		Cost	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Shares and other variable yield securities and units in unit trusts	108,690	71,624	100,831	83,629
Debt securities and other fixed income securities	495,063	551,638	490,886	554,307
Participation in investment pools	89,230	98,647	76,846	111,527
Other loans	–	26,148	–	26,114
Deposits with credit institutions	8,008	9,473	8,008	9,473
	700,991	757,530	676,571	785,050

Included above are listed investments amounting to £100.8 million (2008: £101.7 million) of which equities amount to £31.8 million (2008: £26.1 million) and participations in investment pools £56.6 million (2008: £75.6 million).

## 12. Debtors Arising out of Insurance Operations

	2009 £'000	2008 £'000
Arising out of direct insurance		
Due from policyholders	–	–
Due from intermediaries – within one year	17,336	39,300
– after one year	1	45
	17,337	39,345

Debtors arising out of reinsurance operations includes £12,438,000 (2008: £9,341,000) due after one year and include funds due in respect of Syndicate 6103 (see note 22).

## NOTES TO THE ACCOUNTS

continued

### 13. Other Debtors

	2009 £'000	2008 £'000
Due within one year		
Outstanding settlements on investments	–	449
Commissions and override receivable	3,461	832
Foreign taxes	1,914	1,622
Members' agents fees funded	1,279	1,103
Other	73	3
	<b>6,727</b>	<b>4,009</b>
Due after one year		
Inter syndicate debt	576	701
Members' agents fees funded	3,294	2,792
Commissions and override receivable	2,469	2,310
	<b>6,339</b>	<b>5,803</b>
	<b>13,066</b>	<b>9,812</b>

### 14. Other Assets

	2009 £'000	2008 £'000
Overseas deposits	23,444	25,379

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

### 15. Reconciliation of Members' Balances

	2009 £'000	2008 £'000
Members' balances brought forward at 1 January	221,420	150,761
Profit for the financial year	141,297	25,800
Exchange rate difference – transfer from the Statement of Recognised Gains and Losses	(13,027)	75,119
– continuous solvency transfers	–	(11,286)
Reclassification of members' agents fees	(1,103)	(958)
Continuous solvency transfers	–	–
Payments of profit to members' personal reserve funds	(137,393)	(18,016)
Members' balances carried forward at 31 December	<b>211,194</b>	<b>221,420</b>

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.

### 16. Creditors Arising Out of Insurance Operations

	2009 £'000	2008 £'000
Arising out of direct insurance operations		
Policyholders	–	–
Intermediaries – within one year	1,087	714
– after one year	–	–
	<b>1,087</b>	<b>714</b>

Creditors in respect of reinsurance operations of £88.1 million (2008: £67.2 million) include amounts due after one year of £49.4 million (2008: £46.1 million), all of which are due from Syndicate 6103.

## NOTES TO THE ACCOUNTS

continued

### 17. Other Creditors

	2009 £'000	2008 £'000
Outstanding settlement on investments	12,280	–
Profit commissions	46,515	48,519
Other	–	11
Inter-syndicate	468	–
	<b>59,263</b>	<b>48,530</b>

Of the profit commissions above, £19,424,000 (2008: £19,141,000) fall due after one year.

### 18. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2009 £'000	2008 £'000
Operating profit on ordinary activities	141,297	25,800
Realised and unrealised investments (gains)/losses including exchange movements	112,715	(176,361)
(Decrease)/increase in net technical provisions	(144,074)	157,466
Decrease/(increase) in debtors	42,902	(40,255)
Increase in creditors	32,243	44,769
Exchange differences on foreign currency translation	(13,027)	63,833
Movement on members' balances	(1,103)	(958)
<b>Net cash inflow from operating activities</b>	<b>170,953</b>	<b>74,294</b>

### 19. Movement in Opening and Closing Portfolio Investments Net of Financing

	2009 £'000	2008 £'000
Net cash flows for the year	(18,165)	(55,057)
Cash flow – portfolio investments and overseas deposits	51,725	111,335
Movement arising from cash flows	33,560	56,278
Changes in market value and exchange rates	(112,715)	176,361
Total movement in portfolio investments	(79,155)	232,639
Portfolio at 1 January	814,192	581,553
<b>Portfolio at 31 December</b>	<b>735,037</b>	<b>814,192</b>

### 20. Movement in Cash, Portfolio Investments and Financing

	At 1 January 2009 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2009 £'000
Cash at bank and in hand	31,283	(18,165)	(2,516)	10,602
Overseas deposits	25,379	563	(2,498)	23,444
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	71,624	67,891	(30,825)	108,690
Debt securities and other fixed income securities	551,638	(4,064)	(52,511)	495,063
Participation in investment pools	98,647	11,214	(20,631)	89,230
Other loans	26,148	(23,414)	(2,734)	–
Deposits with credit institutions	9,473	(465)	(1,000)	8,008
Total portfolio investments	757,530	51,162	(107,701)	700,991
<b>Total cash, portfolio investments and financing</b>	<b>814,192</b>	<b>33,560</b>	<b>(112,715)</b>	<b>735,037</b>

# NOTES TO THE ACCOUNTS

continued

## 21. Net Cash Inflow/(Outflow) on Portfolio Investments

	2009 £'000	2008 £'000
Purchase of shares and other variable yield securities	(69,566)	(44,471)
Purchase of debt securities and other fixed income securities	(623,177)	(1,706,885)
Purchase of participation in investment pools	(24,589)	(71,661)
Deposits with credit institutions	464	2,601
Other loans	23,414	57,647
Sale of shares and other variable yield securities	1,675	30,234
Sale of debt securities and other fixed income securities	627,241	1,614,683
Sale of participation in investment pools	13,376	7,064
<b>Net cash (outflow) on portfolio investments</b>	<b>(51,162)</b>	<b>(110,788)</b>

## 22. Related Parties

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agent and syndicate.

MAP also manages Syndicate 6103. The underwriting business of Syndicate 6103 is derived solely under a reinsurance contract with Syndicate 2791. Under the terms of this contract, Syndicate 6103 is obliged to accept 40% (2008: 30%) of all business written by Syndicate 2791 under certain categories of its property catastrophe book. Syndicate 2791 retains the balance of these contracts net for its own account.

Syndicate 2791 receives a ceding commission of 5% of the original gross net premiums written and ceded to Syndicate 6103; additionally, an overriding commission of up to 1.5% of Syndicate 6103's capacity is received to cover personal expenses of Syndicate 6103 names borne by Syndicate 2791. A profit commission of 15% of profits, as defined in the contract, is payable to MAP. All funds are retained and invested by Syndicate 2791 on behalf of Syndicate 6103 and interest is payable (or charged on negative balances) to Syndicate 6103 at rates agreed.

During the year, the following transactions between the syndicates occurred:

	2009 £'000	2008 £'000
Premiums ceded	(30,326)	(16,264)
Paid claims recovered	4,768	6,933
Ceding commission	1,508	817
Overriding commission	287	226
Interest paid	(1,288)	(500)
Interest received	19	67

Managing agency fees amounting to £2,221,000 were paid to MAP during 2009 (2008: £2,205,000) and profit commission of £30,094,000 (2008: £7,713,000) is also due to the managing agent in respect of the results for this calendar year. Expenses totalling £6,537,000 (2008: £6,526,000) have been recharged during the year.

The directors' interests in the ordinary share capital of MAP Equity Limited, which has an issued share capital of 250,000 £1 shares, at the balance sheet date, were as follows:

	A Shares (voting)	B Shares (non-voting)
R K Trubshaw	26,250	–
A Kong	18,750	–
J D Denoon Duncan	–	8,333
B S McAuley	–	12,500
C J Smelt	–	2,500
R J Sumner	–	8,334

# NOTES TO THE ACCOUNTS

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continued

## 22. **Related Parties** *continued*

Messrs Denoon Duncan, Kong, Trubshaw, Sumner, Smelt and Ms McAuley, or their related parties, participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited. MAP Capital Limited commenced underwriting on the 2001 year of account. For the 2009 year of account MAP Capital Limited provided £85,062,500 of capacity on Syndicate 2791 (2008: £110,062,500) representing 21.1% of capacity (2008: 27.4%). MAP has no direct or indirect interest in the share capital of MAP Capital Limited.

For the 2009 year of account, these directors also participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member, Nomina No 208 LLP. For the 2009 year of account it has provided £3,980,000 of capacity representing 0.99% of capacity. MAP has no direct or indirect interest in Nomina No 208 LLP.

Certain functions in relation to administration and systems had been sub-contracted to companies related to Omni Bridgeway BV which has a 9.9% interest in the shares of the intermediate parent company, Managing Agency Partners Holdings Limited. These arrangements are on an arms length basis. The charges for these services in 2009 totalled £131,000 (2008: £138,000).

The syndicate has an investment in Steadfast International Limited, an equity investment fund managed by Steadfast Capital Management Limited of which Mr Foote, a director of MAP, is the managing director. The syndicate's participation on this fund is at arm's length and the syndicate was charged fees and profit commissions amounting to US\$1.4 million during 2009 on normal commercial terms. Mr Foote, as partner in Steadfast Capital Management Limited will participate in any profits of Steadfast Capital Management Limited.

Separately, a fund under the management of Steadfast Capital Management Limited participates in the syndicate through a corporate vehicle – the syndicate does not invest in this fund.

Messrs Shipley and Kong, directors of MAP, have interests in Steadfast International Limited of US\$1 million and US\$0.25 million respectively. These investments have been made on an arms length basis within their personal investment portfolios.

There are no other transactions or arrangements requiring disclosure.

## 23. **Funds at Lloyd's**

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be 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 settled losses.

## 24. **Contingent Liabilities**

### ***Litigation***

In the course of conducting insurance business, the syndicate receives claims in respect of its underwriting activities and becomes involved in actual or threatened litigation arising therefrom including actions in respect of subrogation, asset recovery or coverage disputes. Prudent estimates of costs arising in the defence of all these claims have been made in these accounts. The board of the managing agent considers each action carefully and appropriate provisions are made accordingly. There are provisions amounting to £374,000 (2008: £328,000) at the year end.

### ***Letters of credit***

The syndicate has provided letters of credit to certain insureds and reinsureds to cover losses that might arise on their contracts written in the ordinary course of business. These amount to US\$12.6 million; the letters of credit are fully collateralised with cash deposits held by Citibank, on the syndicate's account, of US\$12.9 million.

## NOTES TO THE ACCOUNTS

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continued

**25. Post Balance Sheet Event**

In accordance with the reinsurance contract with Syndicate 6103, the 2007 Year of Account of that syndicate will be commuted and an RITC effected with this syndicate and the reserves carried for the 2007 Year of Accounting (amounting to £85,000) transferred to this syndicate in 2010.

**26. Off-Balance Sheet Items**

The syndicate has not been party to any arrangement which is not reflected in its balance sheet.



MAP Managing Agency Partners Ltd  
Syndicate 2791 at Lloyd's

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