Whittington

Syndicate 2525

Annual Report 2010

Annual accounting contents

Closing year of account contents

Financial Statements
for the year ended 31 December 2010

Managing agent: Directors and administration

Managing agent

Whittington Capital Management Limited (“WCM”)

Directors

T A Riddell (Chairman)*
L N Barnett
S P Cane
A J R Gordon
C E O Griffiths
G L Griffiths
S K Laderman
D F C Murphy*
S P A Norton
J W Ramage*
J M Tighe
H M Westcott
D K L White*

Non Executive Directors *

Company secretary

J M Wilson

Managing agent’s registered office

33 Creechurch Lane
London EC3A 5EB

Managing agent’s registered number

1918744

Syndicate:

Active underwriter

D L Dale

Bankers

Barclays Plc
Citibank N.A., New York

Investment managers

Amundi (UK) Limited

Registered auditors

KPMG Audit Plc

Underwriter's report for the year ended 31 December 2010

The annual profit for the year ended 31 December 2010 is £12.6m (2009 profit: £16.2m). The performance of each underlying year of account is given below.

2008 year of account

Allocated Capacity	£41.9m
Capacity Utilisation	82.7%
Profit in 2010	£13.3m

I am pleased to report a calendar year profit of £13.3m which is higher than forecasted at this time last year. I explained in detail in last year's report how our cautious approach to predicting the final result gives rise to this phenomena and would merely add that there has been no change to the development pattern over the last year and the result therefore reflects this.

Stamp capacity remained unchanged and utilisation was down at 82.7% (2007 88.4%). Year on year price reductions on our renewal book were -4.4% compared to a figure of -5.8% in 2007.

The high level business mix remained unchanged except for the inclusion within the book of an international excess of loss casualty account (excluding North America) to further boost our UK excess EL and PL accounts. As a start-up account this contributed 2.0% of income during the year.

Our broker support remained largely unchanged and has tended to come from the medium to smaller independent sector rather than larger national brokers and brokerage levels remained constant.

Terms and conditions remained stable and deductables on the primary account continued at a realistic level. These have changed little since the 2003 year of account.

Much of the profit in the calendar year has come from releases from 2008 and prior years as a result of continuing improved development in our Incurred Net Loss Ratios and the consequent reductions in Ultimate Net Loss Ratios.

2009 year of account

Allocated Capacity	£42.0m
Capacity Utilisation	72.0 – 75.0%
Profit in 2010	£2.4m

After 24-months development the 2009 year of account's incurred net loss ratio is currently 53.7% compared to 62.5% for 2008 year of account at the same stage.

Stamp capacity remained unchanged with an estimated utilisation of 73.0% which is lower than that achieved in 2008 by 10.0%.

The Syndicate's philosophy remained unchanged and our high level business mix was in line with the targets set which has underpinned our strategy since our arrival in 2003. The international excess of loss casualty account which commenced last year attracted approximately £3,000,000 of income due to a large one-off contract in Hong Kong and this has significantly increased our whole account excess of loss income from 13.0% to 21.0% of stamp.

Rate reductions on the renewal account were considerably less than those experienced in the previous year at –0.2% compared to -4.4%.

As in previous years terms and conditions continued to remain tightly aligned to realistic deductibles on the primary account and our broker support was broadly unchanged.

Whilst the overall GAAP result for 2009 is still registering a small loss the development over the last year has been more benign than 2008 and I would expect further improvement during the next year.

2010 year of account

Allocated Capacity	£42.0m
Capacity Utilisation	70.0-75.0%
Loss in 2010	£3.1m

Stamp capacity remained unchanged and rate reductions were slightly higher than those experienced in 2009 at -0.9% but were nevertheless satisfactory. The estimated premium income will be close to £30.0m which will be a good achievement when judged against 2009.

Recognising some of the issues in projecting from immature data, the long tail nature of the account, provisions made for unearned premiums, and lack of investment income, it is prudent to post a loss for 2010 at this early stage. However it is smaller than the loss posted for 2009 at the same stage of its development last year and which has since seen significant improvement.

Underwriter's report for the year ended 31 December 2010

2010 year of account *continued*

Below is the renewal rate monitor, which shows the how premium rates have moved year on year and the effect this has had on rating over time:

2004	-10.1%
2005	-9.5%
2006	-8.8%
2007	-5.8%
2008	-4.4%
2009	-0.2%
2010	-0.9%
2011	-0.1%

Combined aggregate reductions from 2004 to date were approximately 40.0%, though the reductions over the last five years (excluding 2011) are 20.1% and over the last three years 5.5%. The pricing environment has certainly levelled over the last two years and in 2011 the same pattern is continuing.

Finally, included is a table of gross income after broker's commission, together with year on year reductions in percentage terms:

Year of account	Premium (£m)	Reduction (%)
2005	42.5	
2006	39.1	-8.0
2007	36.6	-6.4
2008	33.9	-7.4
2009	30.0	-11.5 (written)
2010	29.4	-2.0 (expected)

As stated last year maintaining discipline in a falling market makes it difficult to maintain market share and as a result our income has decreased over time, though the comparison of the income expected in 2010 with that written in 2009 is encouraging and may indicate that we have reach our lowest point.

D L Dale
Active Underwriter

Registered Office
33 Creechurch Lane
London EC3A 5EB

17 March 2011

Report of the directors of the managing agent for the year ended 31 December 2010

The Directors of the Managing Agent present their report in respect of Syndicate 2525 for the year ended 31 December 2010.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Novation of the management of syndicate 2525

In December 2010, Lloyd's gave approval for the novation of the management of Syndicate 2525 from Alterra at Lloyd's Limited (Alterra) to Whittington Capital Management Limited ("WCM").

Principal activity and review of the business

The Syndicate's principal activity continues to be the underwriting of direct insurance in the Lloyd's market.

The Syndicate writes Employers' and Public liability insurance primarily in the United Kingdom.

The result for calendar year 2010 is a profit of £12,557,000 (2009 profit: £16,162,000).

A full review is included in the Underwriter's report.

The Syndicate's key financial performance indicators during the year were as follows:

	2010 £000	**2009 £000**
Gross written premiums	36,804	37,614
Profit for the financial year	12,557	16,162
Total recognised gains and losses relating to the financial period	12,538	15,994
Claims ratio	23%	35%
Expenses ratio	39%	33%
Combined ratio	62%	68%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of net operating expenses, including exchange differences, to earned premiums net of reinsurance.

Investment policy

The investment management agreement between the agency and the Syndicate's investment managers, Amundi (UK) Limited, was novated to WCM as part of the transfer of the management of the Syndicate from Alterra to WCM. Premiums trust funds are invested to maximise return within agreed restraints, including adequate liquidity and security, and in line with the policy set out in the agreement. The investment managers have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price conditions. An investment committee and formal procedures for monitoring investments exist in line with guidance from Lloyd's.

Review of calendar year 2010

The economic recovery that had started in the second half of 2009 in the major Western economies continued through 2010. With government bond yields at historic lows, and equity markets continuing to improve, credit spreads tightened throughout most of the year and a significant number of borrowers took advantage of the attractive borrowing levels to issue long-term debt. With expectations of interest rate increases put back, government bond yields fell and the yield curves out to five years flattened. As such bond market returns were higher than implied at the start of the year as continued economic uncertainty pushed bond yields lower. Some of these returns were given up in November and December, following stronger than expected economic data in the US and increasing inflation concerns in the UK.

The Syndicate's investment return was at the top end of estimates made at the beginning of 2010, largely driven by falling yields and the above average exposure to non-Government bonds in all portfolios.

Outlook for 2011

The outlook for investment returns in 2011 is poor. Low absolute bond yields limit the ability to generate investment income and capital losses are very possible given the potential for rising bond yields. The outlook for corporate bonds in 2011 is likely to remain favourable. Although spreads have tightened considerably there is unlikely to be any general spread-widening over the coming year. Portfolio exposure to such instruments is likely to remain high and may increase where possible.

Report of the directors of the managing agent for the year ended 31 December 2010

Outlook for 2011 *continued*

Sovereign risk has increased throughout 2010 due to ballooning budget deficits, uncertain economic outlooks and the threat of contagion from weaker peripheral countries. This has created a more multilateral pricing structure, particularly in Europe, where risk is both systemic and specific. Opportunities may arise due to relative pricing differentials and risk evaluation.

The potential for capital losses through yield increases means that portfolios will likely be maintained with a short duration bias in the medium term. This policy is unlikely to change in the short-term as the investment objectives are currently biased towards protecting the portfolio against unnecessary losses.

Stock lending

No stock was made available for lending, in the non-centrally managed funds, on behalf of members of the Syndicate during 2010. No stock was being lent on behalf of members of the Syndicate at 31 December 2010.

Principal risks and uncertainties

The Board sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. The Agency has established a Risk Committee which meets quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan monthly through the year. The Agency uses catastrophe modelling software to model potential losses from catastrophe-exposed business.

Reserve adequacy is monitored through quarterly review by the Syndicate actuary. It is also reviewed by an independent firm of actuaries.

Credit risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Board's policy is that the Syndicate will only reinsure with businesses rated in the A range or higher. The Agency has established a Reinsurance and Intermediaries Security Committee which assesses and is required to approve all new reinsurers before business is placed with them.

In addition, an Investment working party reporting to the Syndicate Board ("SB") ensures that the Syndicate's investments are held in high quality instruments.

Market risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the SB.

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. To mitigate this risk the SB reviews cash flow projections regularly. Further, the Agency has arranged overdraft facilities with the Syndicate's bankers in case of an unprojected cash flow deficit.

Operational risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to

Report of the directors of the managing agent for the year ended 31 December 2010

Regulatory risk *continued*

regulatory change. 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. The Agency has a compliance director who monitors regulatory developments and assesses the impact on agency policy.

Solvency II

The investment that the Agency has made in systems and people will give the Syndicate a robust platform to manage Solvency II. The Solvency II directive is critically important for the insurance industry. The Syndicate remains determined to secure the approval by Lloyd's of our own internal capital model and the Agency is well on track to achieve that.

Future developments

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

The capacity for the 2011 year of account is £42.0m (2010 year of account £42.0m).

Directors serving in the year

The Directors of WCM who served during the year ended 31 December 2010, were as follows:

T A Riddell (Chairman)
V Badal *Resigned 12 January 2010*
L N Barnett
S P Cane
A J R Gordon
C E O Griffiths *Appointed 15 March 2010*
G L Griffiths
S K Laderman
D F C Murphy
S P A Norton
J W Ramage *Appointed 30 July 2010*
J M Tighe
H M Westcott
D K L White

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 auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow Directors of the agency and the Syndicate's auditors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

The management intends to reappoint KPMG Audit Plc as the Syndicate's auditors.

Syndicate annual general meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 28 April 2011.

On behalf of the Board

J M Wilson
Company Secretary

Registered Office
33 Creechurch Lane
London EC3A 5EB

17 March 2011

Statement of managing agent's responsibilities

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

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

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

The Managing Agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the 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 website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of syndicate 2525

We have audited the Syndicate 2525 annual accounts for the year ended 31 December 2010, as set out on pages 11 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the Managing Agent is responsible for the preparation of Syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm .

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

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

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

Mark J Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants London

17 March 2011

Profit and loss account: technical account – general business
for the year ended 31 December 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	36,804		37,614	
Outward reinsurance premiums		(5,691)		(7,110)	
Net premiums written		31,113		30,504	
Change in the provision for unearned premiums					
Gross amount		(3,788)		5,922	
Reinsurers' share		1,060		(394)	
Change in net provision for unearned premiums		(2,728)		5,528	
Earned premiums, net of reinsurance			28,385		36,032
Allocated investment return transferred from the non-technical account			1,946		4,419
Claims incurred, net of reinsurance					
Claims paid – Gross amount		(17,827)		(16,035)	
– Reinsurers' share		1,371		1,205	
Net claims paid		(16,456)		(14,830)	
Change in the provision for claims					
Gross amount		2,560		4,479	
Reinsurers' share		7,258		(2,185)	
Change in net provision for claims		9,818		2,294	
Claims incurred, net of reinsurance	4		(6,638)		(12,536)
Net operating expenses	5		(11,136)		(11,753)
Balance on the technical account			12,557		16,162

All operations are continuing.

The notes on pages 17 to 26 form part of the financial statements.

Profit and loss account: non-technical account
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Balance on the technical account – general business		12,557	16,162
Investment income	10	4,498	4,480
Unrealised gains on investments		911	1,119
Investment expenses and charges	11	(1,428)	(255)
Unrealised (losses) on investments		(2,035)	(925)
Allocated investment return transferred to general business technical account		(1,946)	(4,419)
Profit for the financial year	15	12,557	16,162

All operations are continuing.

The notes on pages 17 to 26 form part of the financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Profit for the financial year		12,557	16,162
Foreign exchange movement on members' funds	15	(19)	(218)
Total recognised gains and losses since last annual report		12,538	15,944

All operations are continuing.

The notes on pages 17 to 26 form part of the financial statements.

Balance sheet – assets as at 31 December 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Assets					
Investments					
Other financial investments	12		90,042		112,447
Reinsurers' share of technical provisions					
Provision for unearned premiums	16	3,032		1,973	
Claims outstanding	16	41,962		34,787	
			44,994		36,760
Debtors					
Due within one year:					
Debtors arising out of direct insurance operations	13	31,477		15,748	
Debtors arising out of reinsurance operations	14	965		1,611	
Other debtors		548		682	
			32,990		18,041
Due after one year:					
Debtors arising out of direct insurance operations		141		186	
			141		186
Other assets					
Cash at bank and in hand	20	25,715		15,923	
Overseas deposits	20	7,049		6,453	
			32,764		22,376
Prepayments and accrued income					
Deferred acquisition costs		2,938		3,634	
Other prepayments and accrued income		145		136	
			3,083		3,770
Total assets			204,014		193,580

The notes on pages 17 to 26 form part of the financial statements.

Balance sheet – liabilities as at 31 December 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Liabilities					
Capital and reserves					
Members' balances	15		5,107		9,733
Technical provisions					
Provision for unearned premiums	16	14,035		10,227	
Claims outstanding	16	160,282		163,157	
Unexpired risk provision	16	–		766	
			174,317		174,150
Creditors					
Due within one year:					
Creditors arising out of direct insurance operations	17	17,933		953	
Creditors arising out of reinsurance operations	18	4,103		5,371	
Other creditors including taxation and social security		2,174		3,160	
			24,210		9,484
Due after one year:					
Other creditors			–		–
Accruals and deferred income			380		213
Total liabilities			204,014		193,580

The notes on pages 17 to 26 form part of the financial statements.

The Syndicate annual accounts on pages 11 to 26 were approved by the Board of Whittington Capital Management Limited on 17 March 2011 and were signed on its behalf by

A J R Gordon
Director

17 March 2011

Statement of cash flows as at 31 December 2010

	Notes	2010 £000	2009 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		12,557	16,162
Realised and unrealised investments losses		5,190	1,239
Decrease in net technical provisions		(8,067)	(9,336)
Increase in debtors		(14,217)	(3,698)
Increase in creditors		14,893	2,203
Foreign exchange movements on balance due to members		(19)	(218)
Net cash inflow from operating activities		10,337	6,352
Payment of member agents' fees		(294)	(291)
Transfer to members in respect of underwriting participations:		(16,870)	(18,021)
	19	(6,827)	(11,960)
Cash flows were invested as follows:			
Increase/(Decrease) in cash holdings	19	9,944	(37,627)
Net portfolio investment	21	(16,771)	25,667
Net investment of cash flows	19	(6,827)	(11,960)

Notes to the financial statements for the year ended 31 December 2010

1. Basis of preparation

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ("the ABI SORP").

2. Accounting policies

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

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

(b) Unearned premiums

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

(c) Reinsurance premium ceded

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

(d) Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

(e) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated 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. The Syndicate used a number of statistical techniques to assist in making these estimates.

Accordingly 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, 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.

Notes to the financial statements for the year ended 31 December 2010

2. Accounting policies *continued*

(f) Unexpired risks provision
A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

(g) Deferred acquisition costs
Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(h) Foreign currencies
Income and expenditure in US Dollars, Canadian Dollars and Euros are translated into Sterling 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.

Syndicate assets and liabilities are translated into sterling at the rates of exchange at the balance sheet dates. Differences arising on translation of opening foreign currency amounts are included in the statement of total recognised gains and losses. Other foreign exchange differences are included in the technical account.

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

(j) 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 purchase price.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

(j) 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 (currently at 20%) deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members of their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

(k) Pension costs
The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

(l) Profit commission
Profit commission is charged by the Managing Agent at a rate of 15% (17.5% from the 2009 year of account) of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months.

(m) Syndicate operating expenses
Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

Notes to the financial statements for the year ended 31 December 2010

3. Segmental analysis

2010	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	36,804	33,016	(15,267)	(11,136)	3,998	10,611
Total	36,804	33,016	(15,267)	(11,136)	3,998	10,611

2009	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	37,614	43,536	(11,556)	(11,753)	(8,484)	11,743
Total	37,614	43,536	(11,556)	(11,753)	(8,484)	11,743

Commissions on direct insurance gross premiums earning during 2010 were £5.9 million (2009 £5.7 million).

All premiums were written in the UK. Analysis by destination is not materially different from the analysis above.

4. Claims

There were favourable movements during the year of £21.9 million, (2009: £18.6 million), in net incurred claims, on reserves held at 31 December 2009.

5. Net operating expenses

	2010 £000	2009 £000
Brokerage and commissions	5,857	5,668
Other acquisition costs	2,202	2,167
Change in deferred acquisition costs	696	(89)
Administration expenses	2,962	3,596
(Profit)/Loss on exchange	(581)	411
	11,136	11,753

Administration expenses include:

	2010 £000	2009 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditor for the audit of these financial statements	118	82
Fees payable to the Syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	–	3
Total auditors' remuneration	118	85

Notes to the financial statements for the year ended 31 December 2010

6. Staff numbers and costs

The following amounts were charged to the Syndicate in respect of salary costs:

	2010 £000	2009 £000
Wages and salaries	1,446	1,353
Social security costs	185	184
Other pension costs	145	134
	1,776	1,671

The average number of working employees on the Syndicate during the year was as follows:

	2010 Number	2009 Number
Administration and finance	7	7
Underwriting	9	9
Claims	8	8
	24	24

7. Emoluments of the directors of Alterra at Lloyd's Ltd

The directors of Alterra, the Managing Agent throughout 2010, received the following aggregate remuneration during the year, charged to the Syndicate and included within net operating expenses. No amounts in relation to WCM Directors Emoluments have been charged to the Syndicate in the year:

	2010 £000	2009 £000
Emoluments	60	66
Contributions to pension schemes	6	6
	66	72

Notes to the financial statements for the year ended 31 December 2010

8. Active underwriter's emoluments

The Active Underwriter received the following aggregate remuneration charged as a Syndicate expense:

	2010 £000	2009 £000
Emoluments	197	180
Contributions to pension schemes	20	18
	217	198

9. Highest paid director's emoluments

The highest paid director of Alterra received the following aggregate remuneration charged as a Syndicate expense:

	2010 £000	2009 £000
Emoluments	28	21
Contributions to pension schemes	3	2
	31	23

10. Investment income

	2010 £000	2009 £000
Income from investments	4,241	4,320
Gains on the realisation of investments	257	160
	4,498	4,480

11. Investments expenses and charges

	2010 £000	2009 £000
Investment management expenses, including interest	132	101
Losses on realisation of investments	1,296	154
	1,428	255

Notes to the financial statements for the year ended 31 December 2010

12. Other financial investments

	2010		2009	
	Market value £000	Cost £000	Market value £000	Cost £000
Debt securities and other fixed income securities	90,042	90,592	112,447	111,662
	90,042	90,592	112,447	111,662

All debt securities and other fixed income securities are listed on a recognised stock exchange.

The following table analyses the credit rating by investment grade of financial investments and cash at bank and in hand.

Security Ratings	GOV £000	AAA £000	AA £000	A £000	Total £000
Debt securities and other fixed income securities	12,884	60,688	14,230	2,240	90,042
Cash at bank and in hand	–	25,715	–	–	25,715
Total	12,884	86,403	14,230	2,240	115,757

13. Debtors arising out of direct insurance operations

	2010 £000	2009 £000
Due within one year		
– intermediaries	31,477	15,748
	31,477	15,748

14. Debtors arising out of reinsurance operations

	2010 £000	2009 £000
Due within one year		
– intermediaries	965	1,611
	965	1,611

15. Reconciliation of members' balances

	2010 £000	2009 £000
Members' balances brought forward at 1 January	9,733	12,100
Profit for the financial year	12,557	16,162
Exchange movement	(19)	(218)
Member's agents fee	(294)	(291)
Distribution to members	(16,870)	(18,020)
Balance carried forward at 31 December	5,107	9,733

Members participate on Syndicates by reference to years of account. Their ultimate result, assets and liabilities are assessed with reference to policies incepting in those years of account in respect of the years on which they participate.

Notes to the financial statements for the year ended 31 December 2010

16. Technical provisions

	2010 Gross provisions £000	2010 Reinsurance assets £000	2010 Net £000	2009 Gross provisions £000	2009 Reinsurance assets £000	2009 Net £000
Claims outstanding						
Balance at 1 January	163,157	(34,787)	128,370	168,474	(37,106)	131,368
Change in claims oustanding	(1,794)	(7,257)	(9,051)	(3,792)	2,185	(1,607)
Effect of movements in exchange rates	(1,081)	82	(999)	(1,525)	134	(1,391)
Balance at 31 December	160,282	(41,962)	118,320	163,157	(34,787)	128,370
Claims notified	111,537	(33,918)	77,619	108,386	(27,293)	81,093
Claims incurred but not reported	48,745	(8,044)	40,701	54,771	(7,494)	47,277
Balance at 31 December	160,282	(41,962)	118,320	163,157	(34,787)	128,370
Unearned premiums						
Balance at 1 January	10,227	(1,973)	8,254	16,272	(2,366)	13,906
Change in unearned premiums	3,788	(1,059)	2,729	(5,922)	394	(5,528)
Effect of movements in exchange rates	20	–	20	(123)	(1)	(124)
Balance at 31 December	14,035	(3,032)	11,003	10,227	(1,973)	8,254

17. Creditors arising out of direct insurance operations

	2010 £000	2009 £000
Due within one year		
– Intermediaries	17,933	953
	17,933	953

18. Creditors arising out of reinsurance operations

	2010 £000	2009 £000
Due within one year		
– intermediaries	4,103	5,371
	4,103	5,371

Notes to the financial statements for the year ended 31 December 2010

19. Movement in opening and closing portfolio investments net of financing

	2010 £000	2009 £000
Net cash inflow/(outflow) from the year	9,944	(37,627)
Cash flow – portfolio investments	(16,771)	25,667
Movement arising from cash flows	(6,827)	(11,960)
Changes in market value and exchange rates	(5,190)	(1,238)
Total movement in portfolio investments net of financing	(12,017)	(13,198)
Balance brought forward at 1 January	134,823	148,021
Balance carried forward at 31 December	122,806	134,823

20. Movement in cash and portfolio investments

	At 1 January 2010 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2010 £000
Cash at bank and in hand	15,923	9,944	(152)	25,715
Debt securities and other fixed interest securities	112,447	(17,367)	(5,038)	90,042
Overseas deposits	6,453	596	–	7,049
Total portfolio investments	134,823	(6,827)	(5,190)	122,806

21. Net cash (outflow)/inflow on portfolio investments

	2010 £000	2009 £000
Sale of overseas deposits	596	377
Purchase of debt securities and other fixed interest securities	(17,367)	(26,044)
Net cash outflow on portfolio investments	(16,771)	(25,667)

Notes to the financial statements for the year ended 31 December 2010

22. 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 settle losses.

23. Disclosure of interests

Managing agent's interest

Whittington Capital Management Ltd (WCM) is the Managing Agent for five Lloyd's Syndicates. Syndicates 1910, 1967, 2015, 2525 and 2526 are managed on behalf of third party capital providers and WCM also provided services to certain Managing Agents at Lloyd's. Syndicates managed by those agents or by WCM may have entered into transactions with each other. Any such transactions were negotiated at arms' length on normal commercial terms.

In December 2010 Lloyd's gave approval for WCM to manage Syndicate 2015 to accept business with risks incepting from 1 January 2011.

In December 2010 Lloyd's sanctioned WCM's management of Syndicate 2525 and Syndicate 2526 which were both novated to WCM with effect from 1 January 2011.

2010 also proved to be a successful year for the agency in achieving the planned migration for business it formerly managed. The FSA and Lloyd's approved a new managing agency, authorised to manage Syndicate 1955 with effect from 1 January 2011.

Managing agent's interest during 2010

Alterra at Lloyd's Limited (AALL)

AALL is a wholly owned subsidiary of Alterra Capital UK Limited which is a wholly owned subsidiary of Alterra Capital Holdings Limited the ultimate parent company.

Total fees payable to AALL in respect of services provided to the Syndicate amounted to £0.3 million (2009: £0.3 million).

Profit commission of £1.9 million is also due to AALL in respect of the profit on the 2008 closed year (2007 closed year: £3.0 million). Profit commission is only payable on closure of the account: the 2008 year of account will normally close at 31 December 2010 and the 2009 year of account at 31 December 2011.

Expenses totalling £3.4 million (2009: £3.5 million) were recharged to the Syndicate by AALL & Alterra UK Underwriting Services Limited. Expenses incurred jointly by the Managing Agent and the Syndicate are apportioned between them on the basis of work performed and resources used. Expenses are charged to the year of account for which they are incurred.

Notes to the financial statements for the year ended 31 December 2010

23. Disclosure of interests *continued*

Alterra UK Underwriting Services Limited (AUUSL)

AUUSL is a non-profit making service company that has been granted a binding authority to underwrite on behalf of Syndicate 2525. AUUSL places employers' liability and public liability with the Syndicate.

AUUSL receives an overrider commission on the premium underwritten on behalf of Syndicate 2525, in 2010 this amounted to £63,000 (2009: £111,000). AUUSL has rebated this overrider commission to Syndicate 2525 and this is included as a credit against Syndicate expenses. AALL executives have not received any benefit for acting as directors of AUUSL.

24. Related parties

Related companies' interests
WCM is a wholly owned subsidiary of Whittington Insurance Markets Limited which is owned by Whittington Group Pte Limited. Certain subsidiaries within the Group provide services to the Syndicate.

Syndicate staff, with effect from 1 January 2011, are employed and paid by a service company, WCM Underwriting Services Limited, which is a wholly owned subsidiary of WCM.

Executives' interests
Certain directors of the Company, by reason of their directorships or shareholdings, had an interest in companies which may have material transactions with managed Syndicates. Details on such interest are contained in the accounts of the Managing Agent.

Related companies' interests during 2010
In addition to AALL, Alterra has interests in other Lloyd's related corporate capital vehicles:

Alterra Corporate Capital 2 Limited
Alterra Corporate Capital 3 Limited
Alterra Corporate Capital 4 Limited
Alterra Corporate Capital 5 Limited
Alterra Corporate Capital 6 Limited

The participations of Alterra Corporate Capital 2 Limited & Alterra Corporate Capital 3 Limited are shown below:

	2007	2008	2009	2010
	£	£	£	£
Alterra Corporate Capital 2 Limited	250,081	250,081	250,081	250,081
Alterra Corporate Capital 3 Limited	600,000	600,000	600,000	600,000

AALL is the managing agency responsible for the management of Syndicates 1400.

25. Post balance sheet event

The 2008 underwriting year result, less members' agent's fees, of £10.6 million will be distributed to members during 2011.

Financial Statements
for the 36 months ended 31 December 2010

2008 Closing Year
Report and Accounts

Managing agent's report for the 2008 closing year of account

We are pleased to announce that the 2008 year of account on the traditional Lloyd's three-year accounting basis has closed with a profit before members' agents' fees of £10.9m which equates to a return on capacity of 26.1%.

Review of the 2008 year of account

Syndicate Allocated Capacity	**£41.9m**
Capacity Utilisation	**82.7%**
Result (as a percentage of capacity) before Members' Agents' Fees	**26.1%**
Total Result	**£10.9m**

With effect from 1 January 2011 the management of the Syndicate has been novated from Alterra at Lloyd's Limited (Alterra) to Whittington Capital Management Limited (WCM).

We believe strongly that this will enable the Syndicate to address the need for growth and diversification, the Syndicate having previously co-existed as a non-aligned Syndicate under a Managing Agency which already had its own 100% aligned Syndicate.

Underwriter's commentary as follows:

Whilst it is clear that prices have more or less levelled out, at the same time, the financial climate is making it more and more difficult to achieve targeted income levels. Our strategy is focused on meeting the challenges of a soft insurance market, a stagnant economy, and increased regulatory cost. We believe that the Syndicate's business model has proven sound foundations and that we have the necessary expertise to execute these plans though we cannot be sure to what extend we may succeed.

As stated many times before the Syndicate's strategy is to support Lloyd's and the London Market, to produce a reasonable product at sensible price for the benefit of both our investors and our clients in a class that we have underwritten for over twenty five years.

In the past the underwriter has written in detail on the Syndicate's products, such as Re-Wage and Direct Settlement, and the risk management systems / programs that we have embedded into the business. However, there is still much work to do in promoting the use of these products and encouraging more effort in implementing the advice that we provide. Part of the strategy this year will be making a greater effort to market the Syndicate's products both nationally direct to the buyers themselves and regionally to the brokers that have more control over the business than our brokers in Lloyd's. This will be done without local regional representation and in partnership with our London brokers.

The deputy underwriter, Mark Hunt, left us at the end of the year to emigrate to Australia. We wish him well and we will miss his contribution to the success of the Syndicate. His departure leaves a vacancy at a senior level and provides us with the opportunity to develop expertise in the casualty area that we do not currently have and we will certainly explore this possibility as we seek a replacement for him.

Below is detailed the whole account net loss ratios.

Net Loss Ratios / Net Ultimate Loss Ratios

2003 Net Loss Ratio at close	30.4%
2003 Net Loss Ratio at December 2010	**23.7%**
2003 Ultimate Loss Ratio at close	54.1%
2003 Ultimate Loss Ratio at December 2010	**25.9%**
2004 Net Loss Ratio at close	46.6%
2004 Net Loss Ratio at December 2010	**35.4%**
2004 Ultimate Loss Ratio at close	65.8%
2004 Ultimate Loss Ratio at December 2010	**38.3%**
2005 Net Loss Ratio at close	63.6%
2005 Net Loss Ratio at December 2010	**45.2%**
2005 Ultimate Loss Ratio at close	79.6%
2005 Ultimate Loss Ratio at December 2010	**51.3%**
2006 Net Loss Ratio at close	61.4%
2006 Net Loss Ratio at December 2010	**55.2%**
2006 Ultimate Net Loss Ratio at close	74.5%
2006 Ultimate Net Loss Ratio at December 2010	**64.3%**
2007 Net Loss Ratio at close	66.7%
2007 Net Loss Ratio at December 2010	**67.6%**
2007 Ultimate Loss Ratio at close	83.7%
2007 Ultimate Loss Ratio at December 2010	**80.5%**
2008 Net Loss Ratio at close	71.3%
2008 Ultimate Loss Ratio at December 2010	**87.9%**

We hope that the above provides some insight into why it is difficult for us to be more precise in forecasting the Syndicate's profit.

By way of explanation, our reserving philosophy has always been to be as robust as we can at the earliest possible stage and indeed the first reserve on every claim is posted by Syndicate staff and not our

Managing agent's report for the 2008 closing year of account

Review of the 2008 year of account *continued*

mandated loss adjusters. This figure is also monitored against the final settlement figure.

This in turn has lead to quicker development (and a steeper curve) than previously experienced on some of the Syndicate's earlier years prior to our involvement.

In addition to the above the new underwriting team and the change of emphasis of the business written created another measure of uncertainty of how the claims would ultimately develop post 2003.

The pattern that has emerged indicates that our cautiously pessimistic reserving, whilst sound and not something that we would consider changing, may be overly pessimistic. This is borne out by reserve redundancy primarily in the second year after close and the subsequent reductions in our Ultimate Loss Ratios which is clearly indicated in the table above. We expect but cannot be certain that 2007 and 2008 will develop in the same manner but perhaps not to such a great extent. The reason this may be so is the uncertainty over the precise claims inflation figure on future claims, the effects the recession may have on the number and size of claims, the possibility of a reduction in the discount rate on bodily injury awards, and the problems which the UK motor market have faced which, although not correlative with our sector, does have some similarities.

Overall we are pleased that we have been able once again to post a significant profit for all our investors and that our discipline in the face of not inconsiderable pressure has been maintained. The actual closing year result is 30% down on the best estimate forecast late last year which has proved to be over ambitious. Although there is nothing within the underlying numbers to cause concern at this stage there has been a retrenchment over the last quarter by our external actuaries over the concerns I have espoused above and this together with the FSA's recent notice to casualty insurers on the need for realistic reserving, has caused us to show a little more caution in how we expect the more recent open years to develop.

In addition, the closing year pure underwriting result and return on investments have both reduced significantly, though back year closed development has been in line with previous years and remains constant at this stage.

We would like to thank Alterra for their help and sure hand over the last few years. For the Syndicate we feel that the novation to Whittington will only serve to strengthen our philosophy and should serve us well in the future and we look forward to making a push for sensible growth with their guidance and expertise.

We would like to thank everybody who has supported us in the London Market especially our brokers and our reinsurance brokers and, of course, our reinsurers. We will work hard to repay the faith they have shown in us.

Our thanks too to everybody at the Syndicate on both claims and underwriting and the continued excellence shown by our staff and seconded personnel in Leeds.

Finally, thank you to our investors and their advisers for their continued support of the Syndicate.

Approved by the Board of Directors and signed on behalf of the Board

A J R Gordon
Director

17 March 2011

Registered Office
33 Creechurch Lane
London EC3A 5EB

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

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 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 of the same Syndicate for different years of account, be equitable 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 annual accounts comply with the Lloyd's Regulations and Syndicate Accounting Byelaw. 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.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of syndicate 2525 – 2008 closed year of account

We have audited the Syndicate underwriting year accounts for the 2008 year of account of Syndicate 2525 for the three years ended 31 December 2010, as set out on pages 32 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 30, the Managing Agent is responsible for the preparation of Syndicate underwriting year accounts under 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), which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the Syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on syndicate underwriting year accounts

In our opinion the Syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2008 closed year of account;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you if, in our opinion:

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

Mark J Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London

17 March 2011

Profit and loss account: technical account – general business
for the 36 months ended 31 December 2010

	Notes	2010 £000	2010 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	41,247	
Outward reinsurance premiums		(6,210)	
			35,037
Reinsurance to close premiums received, net of reinsurance			86,508
Allocated investment return transferred from the non-technical account			2,340
Claims incurred, net of reinsurance			
Claims paid – Gross amount		(18,528)	
– Reinsurers' share		1,371	
Net claims paid		(17,157)	
Reinsurance to close premium payable, net of reinsurance	5	(84,979)	
			(102,136)
Net operating expenses	6		(10,816)
Balance on the technical account – general business	4		10,933

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 35 to 42 form part of the financial statements.

Profit and loss account: non-technical account
for the 36 months ended 31 December 2010

	Notes	2010 £000
Balance on the technical account – general business		10,933
Investment income	7	4,379
Unrealised gains on investments		961
Unrealised losses on investments		(1,959)
Realised gains on investments		271
Realised losses on investments		(1,195)
Investment expenses and charges		(117)
Allocated investment return transferred to the general business technical account		(2,340)
Profit for the closed year of account		10,933

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 35 to 42 form part of the financial statements.

Balance sheet as at 31 December 2010

	Notes	2010 £000	2010 £000
Assets			
Investments	8		83,381
Debtors			
Debtors arising out of direct insurance operations	9	2,048	
Debtors arising out of reinsurance operations	10	965	
Other debtors		95	
			3,108
Reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account	5		36,627
Cash at bank and in hand			29,508
Total assets			152,624
Liabilities			
Amounts due to members	11		10,636
Reinsurance to close premiums payable to close the account – gross amount	5		121,606
Creditors			
Creditors arising out of direct business	12	17,649	
Creditors arising out of reinsurance operations	13	804	
Other creditors including taxation and social security		1,929	
			20,382
Total liabilities			152,624

The notes on pages 35 to 42 form part of these financial statements.

The Syndicate underwriting year of accounts were approved by the Board of Whittington Capital Management Limited on 17 March 2011 and were signed on its behalf by

A J R Gordon
Director
17 March 2011

Notes to the financial statements for the 36 months ended 31 December 2010

1. Basis of preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable Accounting Standards in the United Kingdom.

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 2008 year of account which has been closed by reinsurance to close at 31 December 2010. Consequently the balance sheet represents the assets and liabilities of the 2008 year of account at the date of closure and the profit and loss account reflects the transactions for that year of account during the 36 months period until closure.

As each Syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting transactions

(a) 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 that 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.

(b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due, but not yet notified to the Syndicate year of account.

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

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being produced.

(c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(d) The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(e) The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss

Notes to the financial statements for the 36 months ended 31 December 2010

2. Accounting policies *continued*

adjusters and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's external consulting actuaries. These techniques 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 provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated 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.

The Syndicate used a number of statistical techniques to assist in making the above 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 methods used, and the estimates made, are reviewed regularly.

(f) A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

(g) Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums at the balance sheet date.

Investment and investment return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments

Notes to the financial statements for the 36 months ended 31 December 2010

2. Accounting policies *continued*

for which a market exists are stated at the average price at which they were traded on the balance sheet date, or the last trading day before that date.

Syndicate operating expenses & profit commission

(i) Costs incurred by the managing agent in respect of the Syndicate are charged to the Syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the Managing Agent and the Syndicate, they are apportioned as follows:

Salaries and Related Costs – According to time of each individual spent on Syndicate matters.
Accommodation Costs – According to number of personnel.
Other Costs – As appropriate in each case.

Profit commission

Profit commission is charged by the Managing Agent at a rate of 15% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes, normally at 36 months. Profit commission, on naturally open years is accrued on the basis of earned profit to date.

Pensions

The Managing Agent operates a defined contribution pension scheme and its recharges to the Syndicate in respect of salaries and related costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the Managing Agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(j) 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 income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members of their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(k) Transactions in US dollars, Canadian dollars and Euros are translated at the date of the transaction or at an approximation average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date.

Although transactions are translated as described above, the final result for the year of account is calculated with US Dollars, Canadian Dollars and Euros translated at the balance sheet rates of exchange.

Differences arising on the re-translation of foreign currency amounts are included in the technical account under net operating profit.

Where Euros are sold or bought relating to the profit or loss of a 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 US dollars and Canadian dollars relating to the profit or loss of a closed underwriting account are brought or sold by members on that year, any exchange profit or loss accrues to those members.

Notes to the financial statements for the 36 months ended 31 December 2010

3. Particulars of business written

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

2010	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Third party liability	41,247	(140,134)	(10,816)	118,296	8,593
Total	41,247	(140,134)	(10,816)	118,296	8,593

All business is written in the United Kingdom. Analysis by destination is not materially different from the analysis above.

Gross operating expenses are the same as net operating expenses.

4. Analysis of result by year of account

	2007 & prior years of account £000	2008 Pure year £000	2008 Total £000
Technical account balance before allocated investment return and net operating expenses	13,230	6,179	19,409
Brokerage and commission on gross premium	(52)	(6,568)	(6,620)
Other acquisition costs	–	(1,829)	(1,829)
Net other expenses	457	(2,824)	(2,367)
Investment income	108	2,232	2,340
Balance on technical account	13,743	(2,810)	10,993

5. Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstanding losses	(96,841)	(24,765)	(121,606)
Reinsurance recoveries anticipated	33,321	3,306	36,627
Net outstanding losses	(63,520)	(21,459)	(84,979)

Notes to the financial statements for the 36 months ended 31 December 2010

6. Net operating expenses

	2010 £000
Acquisition costs	(8,449)
Standard personal expenses	(2,520)
Administration expenses	(363)
Loss on exchange	516
	(10,816)

The closed year profit is stated after charging:

	2010 £000
Auditors' remuneration:	
Fees payable to the Syndicate's auditor for the audit of these financial statements	(104)
Fees payable to the Syndicate's auditor and its associates in respect of:	
Other services pursuant to legislation	(8)
	(112)

The auditors did not receive any other remuneration other than that stated above.

7. Investment income

	2010 £000
Income from investments	4,379
	4,379

8. Investments

	2010 £000
Debt securities and other fixed income securities	83,381
	83,381

All debt securities and other fixed income securities are listed on a recognised stock exchange. All investments are rated AAA to A by external rating agencies.

9. Debtors arising out of direct insurance operations

	2010 £000
Due within one year – intermediaries	1,907
Due after one year – intermediaries	141
	2,048

Notes to the financial statements for the 36 months ended 31 December 2010

10. Debtors arising out of reinsurance operations

	2010 £000
Due within one year	965
	965

11. Amounts due to members

	2010 £000
Profit for the closed year of account	10,933
Members' agents' fees paid on behalf of members	(297)
Members' balances carried forward at 31 December 2010	10,636

12. Creditors arising out of direct insurance operations

	2010 £000
Due within one year	17,649
	17,649

13. Creditors arising out of reinsurance operations

	2010 £000
Due within one year	804
	804

14. Related parties

WCM is a wholly owned subsidiary of Whittington Insurance Markets Limited which is owned by Whittington Group Pte Limited. Certain subsidiaries within the Group provide services to the Syndicate.

Executives' interests

Certain directors of the Company, by reason of their directorships or shareholdings, had an interest in companies which may have material transactions with managed Syndicates. Details on such interest are contained in the accounts of the Managing Agent.

Alterra UK Underwriting Services Limited (AUUSL)

AUUSL is a non-profit making service company that has been granted a binding authority to underwrite on behalf of Syndicate 2525. AUUSL places employers' liability and public liability with the Syndicate.

Notes to the financial statements for the 36 months ended 31 December 2010

14. Related parties *continued*

Additional related companies' interests
In addition to Alterra at Lloyd's Limited, Alterra has interests in other Lloyd's related corporate capital vehicles:

Alterra Corporate Capital 2 Limited
Alterra Corporate Capital 3 Limited
Alterra Corporate Capital 4 Limited
Alterra Corporate Capital 5 Limited
Alterra Corporate Capital 6 Limited

The participations of Alterra Corporate Capital 2 Limited. & Alterra Corporate Capital 3 Limited. are shown below:

	2007	2008	2009	2010
	£	£	£	£
Alterra Corporate Capital 2 Limited	250,081	250,081	250,081	250,081
Alterra Corporate Capital 3 Limited	600,000	600,000	600,000	600,000

15. Post balance sheet event

The 2008 underwriting year result, less member's agent's fees, of £10.6 million will be distributed to members during 2011.

Summary of closed year results as at 31 December 2010

	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Syndicate allocated capacity	44,786	41,992	73,988	44,282	49,848	41,868	41,848
Number of underwriting members	294	280	514	421	478	478	469
Aggregate net premiums	32,315	29,690	40,400	32,361	32,994	27,822	26,588
Results for an illustrative share of £10,000	£	£	£	£	£	£	£
Gross premiums	9,593	11,442	8,778	11,208	10,078	10,504	9,856
Net premiums	7,215	7,070	5,460	7,308	6,619	6,645	6,353
Reinsurance to close from and earlier account	10,364	15,802	9,408	17,680	16,091	21,726	20,672
Net claims	(2,770)	(3,352)	(2,134)	(2,996)	(2,517)	(3,717)	(4,100)
Reinsurance to close	(14,971)	(16,576)	(10,582)	(18,113)	(18,247)	(20,662)	(20,307)
Profit/(loss) on exchange	(88)	33	(4)	(135)	1,130	(69)	123
Syndicate operating expenses	(231)	(274)	(118)	(234)	(151)	(104)	(87)
Balance on technical account	(481)	2,703	2,030	3,510	2,925	3,819	2,654
Investment income less investment expenses and charges and investment gains less losses	688	984	642	1,681	1,608	1,208	559
Profit/(loss) on ordinary activities	207	3,687	2,672	5,191	4,533	5,027	3,213
Illustrative personal expenses							
Managing agent's fee	60	60	60	60	60	60	60
Profit commission	–	525	373	751	652	723	461
Other personal expenses (excluding members' agents fees)	125	125	125	125	125	150	81
	185	710	558	936	837	933	602
Profit/(loss) on ordinary activities after illustrative managing agent's fee and profit commission and illustrative personal expenses	22	2,977	2,114	4,255	3,696	4,094	2,611
Total of syndicate operating expenses, managing agent's fee and profit commission	291	859	551	1,045	863	887	608
Capacity utilised	95.9%	96.1%	74.0%	94.1%	86.4%	88.4%	82.74%
Net capacity utilised	69.9%	77.6%	54.6%	76.2%	69.6%	71.4%	67.90%
Underwriting (loss)/profit ratio	(5.0%)	23.6%	23.1%	31.3%	29.0%	28.9%	26.13%

Notes

1. The summary of closed year results has been prepared from the audited accounts of the Syndicate.
2. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the Syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes, has been excluded.
3. As regards the 2007 and 2008 years of account, an illustrative share of £10,000 represents 0.0238% and 0.0238% of the respective allocated capacity.

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