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Syndicate 1400

Annual Report and Financial Statements for the year ended 31 December 2014

MARKEL®

Syndicate 1400
Annual Report and Financial Statements
for the year ended 31 December 2014

Contents

Directors and administration

Managing Agent

Markel Syndicate Management Limited

Board of Directors

Ian Marshall (Chairman)
Jeremy W Brazil
Stephen M Carroll
Andrew J Davies
Paul H Jenks
Nicholas J S Line
Ralph C Snedden
William D Stovin
Anne Whitaker

Company Secretary

Andrew J Bailey

Managing Agent's registered office

20 Fenchurch Street
London
EC3M 3AZ

Managing Agent's registered number

3114590

Syndicate

1400

Run-off Manager

Jeremy W Brazil (Appointed 3 December 2013)

Bankers

Barclays Bank Plc, London
Citibank N.A. New York
Royal Bank of Canada, Toronto
Danske Bank, Copenhagen

Investment Managers

Markel Gayner Asset Management Corporation

Registered Auditor

KPMG LLP, London

Lawyers

Norton Rose Fulbright LLP, London

Report of the Directors of the Managing Agent

The Directors of the Managing Agent submit the Annual Report and Financial Statements of Syndicate 1400 for the year ended 31 December 2014. These are 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").

Review of the business

Syndicate 1400 (“the Syndicate”) was the Lloyd’s platform for Alterra Capital Holdings Limited (“Alterra”), a Bermuda-headquartered global underwriter of specialty insurance and reinsurance. In May 2013, Markel Corporation (“Markel”) acquired Alterra.

Markel Syndicate 3000 is Markel’s existing Lloyd’s platform, so with effect from the end of 2013, the Syndicate ceased underwriting new business. Certain lines of business that were transacted through the Syndicate have been written by Markel Syndicate 3000 for the 2014 underwriting year of account.

Efforts will be focussed on managing an orderly and economical run-off for the remaining liabilities of the Syndicate.

Business profile and units

Following the acquisition by Markel, all lines of business were subject to a detailed review and certain lines, such as Aviation and Marine, were exited prior to the end of 2013.

The Casualty Treaty line of business, Zurich and Latin America operations previously written by the Syndicate now operate as underwriting units at Markel Syndicate 3000.

Results and performance

The results for the year, as set out on pages 11 - 12 show a profit of £16.2m (2013, loss of £26.2m).

The underwriting profit of £12.0m in 2014 (2013, loss of £27.4m) includes a release from prior year reserves of £10.6m (2013, £4.4m deterioration).

The investment return was £4.2m (2013, £1.2m) generating a yield of 2.0% (2013, 0.6% on the investment portfolio).

Key Performance Indicators

Annual Accounting Data Profit and Loss Account	2011 £'m	2012 £'m	2013 £'m	2014 £'m
Gross written premiums	167.4	198.0	166.4	(10.1)
Net written premiums	110.2	117.1	108.9	(4.4)
Retention rate	65.8%	59.1%	65.4%	43.6%
Net earned premiums	**86.9**	**125.8**	**118.5**	**33.8**
Net underwriting result	**(27.1)**	**(4.3)**	**(27.4)**	**12.0**
Loss & LAE ratio	86.9%	67.3%	82.4%	34.0%
Expense ratio	44.3%	36.1%	40.7%	30.4%
Combined ratio	**131.2%**	**103.4%**	**123.1%**	**64.4%**
Investment return	5.4	6.0	1.2	4.2
Investment yield	3.0%	3.2%	0.6%	2.0%
Profit / (loss)	**(21.7)**	**1.7**	**(26.2)**	**16.2**

Balance Sheet	2011 £'m	2012 £'m	2013 £'m	2014 £'m
Financial investments and cash	204.6	184.9	198.2	218.7
Gross claims outstanding	278.0	302.5	349.1	307.2
Reinsurers' share of claims outstanding	102.5	91.6	91.1	54.2
Net claims outstanding	175.6	210.9	258.0	253.0

Three Year Accounting Data	2011 £'m	2012 £'m	2013 £'m	2014 £'m
Syndicate Capacity	**150.0**	**210.0**	**235.0**	**n/a**
Underwriting result	(41.5)	(0.2)		
Investment result	3.9	4.9		
Result on closure	**(37.6)**	**4.7**		
Forecast return at 12 months	(15.5)%	0.8%	(8.5)%	
Forecast return at 24 months	(14.1)%	(5.0)%	(10.0)%	
Return on capacity at closure	**(25.1)%**	**2.2%**		

Business environment and future prospects

The Syndicate ceased underwriting new business with effect from the end of 2013. Certain lines of business that were transacted through the Syndicate have been written by Markel Syndicate 3000 for the 2014 underwriting year of account.

Efforts will be focussed on managing an orderly and economical run-off for the remaining liabilities of the Syndicate.

Principal risks and uncertainties

Syndicate 1400 is now part of (or subject to) Markel International's Risk Management framework. Markel International has a risk register detailing the risks to which it is exposed, grouped under the following categories:

- Underwriting Risk
- Reserving Risk
- Market Risk
- Credit Risk
- Operational Risk
- Liquidity Risk
- Group Risk

There are currently 24 risks in the risk register. A formal review by the Risk and Capital Committee and the Board occurs at least annually to ensure that the risk register identifies all the risks to which Markel International is exposed. Key controls are identified to mitigate each risk and quarterly confirmation is sought from the owners of these controls that they are in place and are operating effectively.

The Risk and Capital Committee meets quarterly to consider Key Risk Indicators and any Risk issues that have arisen. These are summarised in the Director of Risk Management's quarterly report to the Board.

Under Solvency II Lloyd's is seeking internal model approval for the market. Markel Syndicate Management meets the principles of Solvency II.

Directors

The Directors of the Managaing Agent who served during 2014 and up to the date of this report were as follows:

Ian Marshall (Chairman)
Jeremy W Brazil
Stephen M Carroll
Andrew J Davies
Paul H Jenks
Nicholas J S Line
Ralph C Snedden
William D Stovin
Anne Whitaker

Markel maintains liability insurance cover on behalf of the Directors and named officers of the Managing Agent.

Corporate governance

Markel Syndicate Management Limited ("MSM"), the Lloyd's Managing Agent of Syndicate 1400, is authorised by the Prudential Regulation Authority ("PRA"). The Board includes three non-executive Directors and meets at least quarterly. Sub-committees of the board include the Audit Committee, Risk and Capital Committee, Wholesale Board, Retail Board and the Internal Audit Committee.

Financial instruments and risk management

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in note 3 of these financial statements. In particular the Syndicate's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note. The Syndicate's exposure to cash flow risk is addressed under the headings of 'Market risk', 'Credit risk' and 'Liquidity risk'.

Carbon policy

As set out in the “Markel Style”, the Company has a commitment to its communities, which we recognise includes environmental responsibilities. Our goal is to minimise our environmental impact whilst still adhering to our other Company principles as expressed in the Markel Style and our Company profile.

Through the development of best practices in our business, we aim to use no more consumables than are necessary and recycle the maximum of those we do use. We also believe that embedding environmental awareness throughout the organisation will be best achieved through a continuous program of employee education.

Disclosure of information to the Auditor

The Directors of the Managing Agent who held office at the date of approval of this Managing Agent’s report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate’s Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Syndicate’s Auditor is aware of that information.

Auditor

The Board intends to recommend reappointment of KPMG LLP as the Syndicate's auditor.

Annual general meeting

As permitted under the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) both corporate members have agreed that no annual general meeting will be held for the Syndicate.

By order of the Board,

Andrew J Davies
Director
London,
06 March 2015

Statement of Managing Agent's responsibilities

The Managing Agent is responsible for preparing the Syndicate annual Financial Statements 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 Financial Statements at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The annual Financial Statements 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 those Syndicate annual Financial Statements, the Managing Agent is required to:

- select suitable accounting policies which are applied 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 Financial Statements; and
- prepare the annual Financial Statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so. The Syndicate ceased underwriting new business with effect from the end of 2013.

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 Financial Statements 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 Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Managing Agent confirms that it has complied with the above requirements in preparing the annual Financial Statements of Syndicate 1400.

By order of the Board,

Andrew J Bailey
Secretary
London,

06 March 2015

Independent Auditor's report to the Member of Syndicate 1400

We have audited the Syndicate 1400 annual accounts for the year ended 31 December 2014, as set out on pages 11 to 27. 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 Managing Agent and the Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of the 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 Ethical Standards for Auditors.

Scope of the audit of the Syndicate Annual Accounts

A description of the scope of an audit of the accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Syndicate Annual Accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate’s affairs as at 31 December 2014 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 matters 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 financial statements are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

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

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

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

06 March 2015

Profit and Loss Account: Technical Account

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Earned premiums, net of reinsurance					
Gross written premiums	4	(10,139)		166,438	
Outward reinsurance premiums		5,771		(57,568)	
Net written premiums			**(4,368)**		**108,870**
Change in the gross provision for unearned premiums	18	55,358		16,113	
Change in the provision for unearned premiums, reinsurers' share	18	(17,183)		(6,525)	
Change in the provision for net unearned premiums			38,175		9,588
Net earned premiums			**33,807**		**118,458**
Allocated investment return transferred from the non-technical account	9		**4,189**		**1,165**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(57,550)		(62,036)	
Reinsurers' share		39,633		21,540	
Net paid claims			(17,917)		(40,496)
Change in the provision for claims					
Gross amount	18	44,231		(58,678)	
Reinsurers' share	18	(37,819)		1,586	
Net change in provision			6,412		(57,092)
Net claims incurred			**(11,505)**		**(97,588)**
Net operating expenses	6		(10,264)		(48,220)
Balance on the technical account			**16,227**		**(26,185)**

All operations relate to continuing business.

The notes on pages 17 to 27 form part of these Financial Statements.

Profit and Loss Account: Non-Technical Account

	Notes	2014 £'000	2013 £'000
Balance on the technical account		16,227	(26,185)
Investment income	7	4,110	5,112
Unrealised gains on investments		1,857	271
Investment expenses and charges	8	(756)	(1,212)
Unrealised losses on investments		(1,022)	(3,006)
Allocated investment return transferred to technical account	9	(4,189)	(1,165)
Profit / (loss) for the financial year		**16,227**	**(26,185)**

All operations relate to continuing business.

In accordance with the amendment to FRS3 published in June 1999, no note of historical cost profits and losses has been prepared as the Syndicate's only material gains and losses on assets relate to the holding and disposal of investments.

The notes on pages 17 to 27 form part of these Financial Statements.

Statement of Total Recognised Gains and Losses

	2014 £'000	2013 £'000
Profit/(loss) for the financial year	16,227	(26,185)
Net foreign exchange revaluation (losses)/gains	(2,865)	353
Total recognised gains/(losses)	**13,362**	**(25,832)**

The notes on pages 17 to 27 form part of these Financial Statements.

Balance Sheet: Assets

as at 31 December 2014

		2014		2013	
	Notes	£'000	£'000	£'000	£'000
Investments					
Financial investments	14		166,330		179,229
Reinsurers' share of technical provisions					
Provisions for unearned premiums	18	2,322		19,392	
Claims outstanding	18	54,159		91,097	
			56,481		**110,489**
Debtors					
Debtors arising out of direct insurance operations	15	2,144		1,178	
Debtors arising out of reinsurance operations	15	15,501		65,383	
Other debtors	16	270		3,584	
			17,915		**70,145**
Cash at bank			52,341		18,998
Prepayments and accrued income					
Accrued interest		909		-	
Deferred acquisition costs		1,260		7,711	
Other prepayments and accrued income		1,410		-	
			3,579		**7,711**
Total Assets			**296,646**		**386,572**

The notes on pages 17 to 27 form part of these annual Financial Statements.

Balance Sheet: Liabilities

as at 31 December 2014

		2014		2013	
	Notes	£'000	£'000	£'000	£'000
Capital and reserves					
Members' balance	17		(24,208)		(75,148)
Technical provisions					
Provisions for unearned premiums	18	8,886		63,884	
Claims outstanding	18	307,165		349,134	
			316,051		**413,018**
Creditors					
Creditors arising out of direct insurance operations	19	1,143		35	
Creditors arising out of reinsurance operations	19	140		3,445	
Other creditors	20	3,520		45,222	
			4,803		**48,702**
Total Liabilities			**296,646**		**386,572**

The Syndicate annual accounts on pages 1 - 27 were approved by the Board of Directors on 06 March 2015 and were signed on behalf of Markel Syndicate Management Limited by, Andrew J Davies, Director.

Andrew J Davies
Director
London,

06 March 2015

The notes on pages 17 to 27 form part of these annual Financial Statements.

Statement of cash flows

	Notes	2014 £'000	2013 £'000
Reconciliation of operating profit / (loss) to net cash inflow from operating activities			
Operating profit/(loss) on ordinary activities		16,227	(26,185)
Net unrealised investment (losses)/gains including foreign exchange		(1,539)	11,036
(Decrease)/increase in net technical provisions		(42,959)	36,416
Foreign exchange movement on balance due to Member		(2,865)	353
Decrease in debtors, prepayments and accrued income		56,362	9,812
(Decrease)/increase in creditors, accruals and deferred income		(43,899)	2,629
Net cash (outflow) from operating activities		**(18,673)**	**34,061**
Transfer to the Member in respect of underwriting participation		37,578	(9,669)
Net investment of cash flows		**18,905**	**24,392**
Cash flows were invested as follows:			
Increase in cash holdings		33,585	9,361
(Decrease)/increase in portfolio investments		(14,680)	15,031
Net investment of cash flows	21	**18,905**	**24,392**

Notes to the Financial Statements

1 Basis of preparation

These Financial Statements have been prepared in accordance with 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 by the Association of British Insurers in December 2006.

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.

a) Underwriting result

The underwriting result is determined using an annual basis of accounting, whereby the incurred cost of claims, commission and expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

i) Written premiums relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums not yet due or notified (pipeline premium). Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

ii) Unearned premiums represent the proportion of premiums written in the year that relates 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. In the opinion of the Directors, the resulting provision is not materially different from one based on the pattern of incidence of risk.

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

iv) Acquisition costs, which represent commission and other expenses related to the production of business, are deferred and amortised over the period in which the related premiums are earned.

v) A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs likely to arise after the end of the financial year in respect of contracts concluded before that date were expected to exceed the unearned premiums receivable under these contracts. Provision for unexpired risks is calculated separately by class and excludes any allowance for investment income. Unexpired risk surpluses and deficits are offset where, in the opinion of the Directors, the business classes concerned are managed together. In such cases a provision for unexpired risks is made only where there is an aggregate deficit.

vi) Claims incurred comprise claims and claims handling expenses paid in the year and the change in provisions for outstanding claims, including provisions for claims incurred but not reported and claims handling expenses. The adequacy of the outstanding claims provisions is assessed by reference to projections of the ultimate development of claims in respect of each underwriting year. Management continually attempts to improve its loss estimation process by refining its ability to analyse loss development patterns, claims payments and other information, but many reasons remain for potential adverse development of estimated ultimate liabilities. The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgements. As part of the reserving process, historical data is reviewed and the impact of various factors such as trends in claim frequency and severity, changes in operations, emerging economic and social trends, inflation and changes in regulatory and litigation environments is considered. Significant delays occur in notifying certain claims and a large measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The reserve for unpaid losses and loss adjustment expenses is determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

The two most critical assumptions as regards these claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the models used for current business are fair reflections of the likely level of ultimate claims to be incurred. However, the Directors believe the process of evaluating past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. Management currently believes the Syndicate's gross and net reserves, are adequate. There is no precise method, however, for evaluating the impact of any significant factor on the adequacy of reserves, and actual results are likely to differ from original estimates.

vii) Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the technical profit and loss account, net of the change in deferred acquisition costs. Deferred acquisition costs represent the proportion of acquisition costs incurred, which corresponds to the unearned premiums provision.

b) Investment return

Investment income comprises interest and dividends receivable for the year before investment expenses. Dividends receivable are stated after adding back any withholding taxation deducted at source. Investment expenses are charged to the profit and loss account on an incurred basis.

Realised gains or losses represent the difference between net sales proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

The 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.

c) Investments

Listed investments are stated at market value, based on bid price and deposits with credit institutions are stated at cost.

d) Foreign currency translation

US dollars, Canadian dollars, Australian dollars and Euros are treated as "branches" under SSAP 20 and the exchange differences arising on the retranslation of the opening balance sheet and the profit and loss account to the closing rate of exchange are included in the statement of total recognised gains and losses. All other exchange differences are reported in the profit and loss account.

Transactions in US dollars, Canadian dollars, Australian 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.

Monetary and non-monetary assets and liabilities denominated in US dollars, Canadian dollars, Australian dollars and Euros, as well as monetary assets and liabilities in other currencies, are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate. Non-monetary assets and liabilities in other currencies are translated at the rate of exchange preceding on recognition.

e) 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 the Member. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States or Canadian Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading ‘other debtors’.

No provision has been made for any overseas tax payable by the Member on underwriting results.

f) Pension costs

Markel Syndicate Management Limited operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and are included within net operating expenses.

3 Management of financial risk

Financial risk management objectives

The Syndicate is exposed to financial risks primarily through its financial assets, reinsurance assets and policyholder liabilities. The Syndicate’s risk management process is controlled using a risk register. Solvency II principles are used to manage the Syndicate’s capital requirements and to ensure that it has the financial strength to support the growth of the business and meet the requirements of policyholders, regulators and rating agencies.

The key financial risks assessed are reserving risk, market risk, credit risk, liquidity risk and group risk.

a) Reserving risk

Reserving risk is the risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, focusing on risks that arise from the quantification of those liabilities.

Claims handling guidelines set out our approach to claims, including:

- Claims diaries – claims adjusters must ensure that they diarise relevant dates when necessary and/or stipulated in the relevant divisional claims handling protocols. There are protocols regarding which types of claims are subject to diary management, and targets set are monitored on a monthly basis.
- Panel of third party advisors – a panel of approved third party advisors (Attorneys and Adjusters) has been established. Third party advisors can only be appointed with sign off from a claims manager.
- Claims peer review audits – each underwriting division is subject to a periodic claims audit of selected claims files for identifying strengths and weaknesses in the handling of claims. Senior independent claims personnel are responsible for the qualitative review of the handling of files.
- Static outstandings – reports on claims that have not been reviewed for 12 months are discussed by management.

A full Actuarial reserving exercise occurs quarterly. This involves internal review within the Actuarial department and discussions with relevant underwriters and claims staff. IBNR packs are produced which contain gross and net projections for all classes of business written at Markel International. The IBNR packs are discussed in detail at quarterly “Combined Ratio Meetings”, which are attended by members of the Board, each division and the reserving Actuaries.

The quarterly reserving process must comply with Sarbanes Oxley legislation. A full reserving process document is maintained and control owners confirm quarterly that key controls are in place and are operating effectively.

b) Market risk

Market risk is the risk that the Syndicate suffers loss from volatility or over concentration in its investment portfolio or due to currency mismatch between assets and liabilities. The Syndicate’s investment manager, Markel Gayner Asset Management Corporation ("MGAM") produces a quarterly Investment Report and in conjunction with the Syndicate, produces a Board report to explain movements in the investment mix, performance against benchmark indices and any changes in investment strategy. The principal market risks and how exposure to these risks is managed are as follows:

- Interest rate risk: The Syndicate works to manage the impact of interest rate fluctuations on the fixed maturity portfolio. The effective duration of the fixed maturity profile is managed with consideration given to the estimated duration of policyholder liabilities.

- Foreign exchange risk: Foreign exchange risk is managed primarily by matching assets and liabilities in each foreign currency as closely as possible. To assist in the matching of assets and liabilities in foreign currencies the Syndicate may purchase foreign exchange forward contracts or buy and sell foreign currencies in the open market. No foreign exchange forward contracts have been entered into during the year.

c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. Key areas where the Syndicate is exposed to credit risk are:

- Amounts recoverable for reinsurers
- Amounts due from insurance intermediaries and insurance contract holders
- Amounts due from corporate bond issuers

The Syndicate’s fixed maturity portfolio is monitored to ensure credit risk does not exceed the Syndicate’s risk appetite. In addition, the Syndicate places limits on exposures to a single counterparty or concentrations of exposures to a specific counterparty. At least 98% of the Syndicate's fixed maturity portfolio is rated 'A' or better.

The Syndicate takes a proactive approach to the collection of reinsurance recoveries, including the pursuit of commutations. New reinsurers may be required to post collateral depending on their size, rating and potential debt to the Syndicate. If a reinsurer is not willing to post collateral then their line size is reduced to an acceptable level in accordance with their applicable rating and capital level.

d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost, primarily claims to policyholders. The Syndicate monitors the projected settlement of liabilities and, in conjunction with MGAM, sets guidelines on the composition of the portfolio in order to manage this risk.

e) Group risk

Group Risk is the risk that actions or events within one part of the Markel Corporation adversely affect an entity, or all entities, within Markel International.

We consider being part of a larger, experienced insurance group, with considerable financial resources and sound reputation to be a strength. We have a number of controls, such as our internal committees that consider the interests of Markel International's legal entities and we endeavour to communicate the Markel International perspective to Markel Corporation, with whom we enjoy an excellent relationship.

We also consider the risk of the Company and Syndicate 1400 being part of Markel International. Our policy is always to consider the interests of each legal entity, and our single risk strategy, risk management approach, operational procedures and standards are effective in ensuring that each entity is treated equitably.

4 Segmental analysis

a) Analysis of business by class before investment return based on EU solvency classes:

2014 Calendar Year	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct insurance						
Accident & health	60	3,680	(761)	(763)	(691)	1,465
Marine, aviation and transport	73	4,473	(1,681)	(927)	(787)	1,078
Fire and other damage to property	54	3,363	3,253	(697)	(916)	5,003
Third party liability	184	11,413	1,033	(2,365)	(2,389)	7,692
Miscellaneous	7	455	(56)	(94)	(88)	217
Total direct	**378**	**23,384**	**1,788**	**(4,846)**	**(4,871)**	**15,455**
Reinsurance	(10,517)	21,835	(15,107)	(5,418)	(4,727)	(3,417)
Total	**(10,139)**	**45,219**	**(13,319)**	**(10,264)**	**(9,598)**	**12,038**

2013 Calendar Year	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct insurance						
Accident & health	10,639	11,669	(6,700)	(3,082)	(2,814)	(927)
Marine, aviation and transport	13,116	14,387	(9,284)	(3,800)	(3,273)	(1,970)
Fire and other damage to property	14,267	15,648	(7,332)	(4,133)	(4,090)	93
Third party liability	19,844	21,765	(3,737)	(5,749)	(6,926)	5,353
Miscellaneous	437	478	115	(127)	(188)	278
Total direct	**58,303**	**63,947**	**(26,938)**	**(16,891)**	**(17,291)**	**2,827**
Reinsurance	108,135	118,604	(93,776)	(31,329)	(23,676)	(30,177)
Total	**166,438**	**182,551**	**(120,714)**	**(48,220)**	**(40,967)**	**(27,350)**

All premiums are derived from business within the Lloyd's Market.

b) Analysis of premium by destination:

	Gross Written Premiums	
	2014 £'000	**2013 £'000**
UK	(13,227)	45,936
Europe (excluding UK)	843	21,138
USA	23	46,270
Canada	(207)	9,154
Rest of the world	2,429	43,940
Total	**(10,139)**	**166,438**

5 Claims outstanding

Net reserves for claims outstanding at 31 December 2013 improved by £10.6m in calendar year 2014. Net reserves for claims outstanding at 31 December 2012 deteriorated by £(4.4)m in calendar year 2013.

6 Net operating expenses

	2014 £'000	**2013 £'000**
Commission costs	(1,129)	17,619
Other acquisition costs	-	-
Change in deferred acquisition costs	6,501	3,432
Administrative expenses	6,710	25,238
(Profit)/loss on exchange	(1,818)	1,681
Gross operating expenses	10,264	47,970
Reinsurance commissions	-	250
Net operating expenses	**10,264**	**48,220**

Commission paid during the year in respect of direct insurance business amounted to £42k (2013, £6.2m). Member's standard personal expenses are included within administrative expenses.

7 Investment income

	2014 £'000	**2013 £'000**
Income from investments	4,006	4,797
Gains on the realisation of investments	104	315
Total	**4,110**	**5,112**

8 Investment expenses and charges

	2014 £'000	2013 £'000
Investment management expenses, including interest	105	98
Losses on the realisation of investments	651	1,114
Total	**756**	**1,212**

9 Investment return

	2014 £'000	2013 £'000
Investment income	4,110	5,112
Net unrealised gains/(losses) on investments	835	(2,735)
Investment expenses and charges	(756)	(1,212)
Actual return on investments	**4,189**	**1,165**

10 Rates of exchange

The rates of exchange used for the principal foreign currency translations are as follows:

	Year-End Rate 2014	Average Rate 2014	Year-End Rate 2013	Average Rate 2013
US Dollar	1.56	1.65	1.66	1.57
Canadian Dollar	1.81	1.82	1.76	1.62
Euro	1.28	1.24	1.20	1.18
Australian Dollar	1.90	1.83	1.86	1.63

11 Staff numbers and costs

Staff are employed by Markel International Services Limited ("MISL"). For a full breakdown of employment costs, please refer to the MISL Annual Reports and Financial Statements.

The Directors' emoluments in the year were paid by MISL. A full disclosure of the existing Directors' emoluments in the year are disclosed in the accounts of Markel International Insurance Company Ltd. The emoluments of the previous Directors charged to the Syndicate during the year were £Nil (2013, £969k).

12 Auditors' remuneration

	2014 £'000	2013 £'000
Audit of these Financial Statements	52	169
Other services pursuant to legislation	25	81
Total Auditors' remuneration	**77**	**250**

13 Emoluments of the run off manager

The run off manager received the following remuneration charged as a Syndicate expense:

	2014 £'000	2013 £'000
Emoluments	**79**	**-**

The run off manager was appointed on 3 December 2013. The Syndicate's active underwriter resigned on 31 December 2013. In 2013, £811k of remuneration was charged as a Syndicate expense in respect of the active underwriter.

14 Investments

	Market Value		Cost	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Holdings in collective investment schemes	54,154	-	54,154	-
Debt securities and other fixed income securities	87,565	90,088	87,038	89,429
Overseas deposits	21,406	29,690	21,406	29,690
Deposits with credit institutions	3,205	59,451	3,205	59,451
Total	**166,330**	**179,229**	**165,803**	**178,570**

15 Debtors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts owed by intermediaries within one year	**2,144**	**1,178**	**15,501**	**65,383**

16 Other debtors

	2014 £'000	2013 £'000
Amounts due from group undertakings	-	3,444
Accrued commission	197	-
Other debtors	73	140
Amounts due within one year	**270**	**3,584**

17 Reconciliation of Members' balance

	2014 £'000	2013 £'000
Members' balance brought forward at 1 January	(75,148)	(39,647)
Profit/(loss) for the financial year	16,227	(26,185)
Net foreign exchange revaluation (losses)/gains	(2,865)	353
Settlement of loss/(profit) from/to the Members' personal reserve fund	37,578	(9,669)
Members' balance carried forward at 31 December	**(24,208)**	**(75,148)**

Year of account development

Year of account	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	Profit to Member at 36 months £'000
2009 & prior	15,660	13,362				
2010	(3,833)	(6,131)	19,633			9,669
2011		(31,456)	8,314	(14,436)		(37,578)
2012			(26,174)	10,874	19,961	4,661
2013				(22,270)	(6,599)	
2014					-	
Calendar year result	**11,827**	**(24,225)**	**1,773**	**(25,832)**	**13,362**	

A distribution of £4.7m to members has been proposed in relation to the 2012 year of account (2013: £37.6m collection in relation to the 2011 year of account).

18 Technical provisions

	2014			2013		
Provision for claims outstanding	**Gross £'000**	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
At 1 January	349,134	91,097	258,037	302,459	91,595	210,864
Movement in provision	(44,231)	(37,819)	(6,412)	58,678	1,586	57,092
Movement due to foreign exchange	2,262	881	1,381	(12,003)	(2,084)	(9,919)
Total movement in reserves	(41,969)	(36,938)	(5,031)	46,675	(498)	47,173
At 31 December	**307,165**	**54,159**	**253,006**	**349,134**	**91,097**	**258,037**

	2014			2013		
Provision for unearned premiums	**Gross £'000**	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
At 1 January	63,884	19,392	44,492	81,584	26,335	55,249
Movement in provision	(55,358)	(17,183)	(38,175)	(16,113)	(6,525)	(9,588)
Movement due to foreign exchange	360	113	247	(1,587)	(418)	(1,169)
Total movement in reserves	(54,998)	(17,070)	(37,928)	(17,700)	(6,943)	(10,757)
At 31 December	**8,886**	**2,322**	**6,564**	**63,884**	**19,392**	**44,492**

19 Creditors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts owed to intermediaries within one year	**1,143**	**35**	**140**	**3,445**

20 Other creditors

	2014 £'000	2013 £'000
Amounts due to other group undertakings	3,126	39,703
Sundry creditor	394	5,519
Total	**3,520**	**45,222**

Included within Sundry Creditors at 2013 is an amount of £4.33m for the purchase of securities at 31 December 2013 but settled in 2014.

21 Movement in opening and closing portfolio investments net of financing

	2014 £'000	2013 £'000
Net cash inflow for the year	33,585	9,361
Cash flows:		
(Decrease)/increase in overseas deposits	(7,696)	469
Net portfolio investments	(6,984)	14,562
Movement arising from cash flows	18,905	24,392
Changes in market value and exchange rates	1,539	(11,036)
Total movement in portfolio investments	**20,444**	**13,356**
Portfolio at 1 January	198,227	184,871
Portfolio at 31 December	**218,671**	**198,227**

22 Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000	Cash flow £'000	Changes to market values and currencies £'000	At 31 December 2014 £'000
Cash at bank	18,998	33,585	(242)	52,341
Overseas deposits	29,690	(7,696)	(588)	21,406
Portfolio investments:				
Holdings in collective investment schemes	-	53,588	566	54,154
Debt securities and other fixed income securities	90,088	(4,326)	1,803	87,565
Deposits with credit institutions	59,451	(56,246)	-	3,205
Total cash, portfolio investments and financing	**198,227**	**18,905**	**1,539**	**218,671**

23 Net cash outflow on portfolio investments

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities	(80,022)	-
Purchase of debt securities and other fixed income securities	(239,697)	(16,332)
Movement of holdings in deposits with credit institutions	56,246	(26,602)
Sale of shares and other variable yield securities	26,434	-
Sale of debt securities and other fixed income securities	244,023	28,372
Net cash inflow / (outflow) on portfolio investments	**6,984**	**(14,562)**

24 Related parties

The Syndicate has availed itself of an exemption under Financial Reporting Standard 8 (Related Party Disclosures) in respect of transactions with entities that are part of the Group, 90% or more of whose voting rights are controlled within the Group.

25 Funds at Lloyd’s

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

The level of FAL that Lloyd’s requires a member to maintain is determined by Lloyd’s based on PRA requirements and resource criteria. FAL 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.