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Markel Syndicate 3000

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

MARKEL®

Syndicate 3000
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

3000

Active Underwriter

Jeremy W Brazil

Bankers

Bank of New York
Barclays Bank
Citibank N.A.
Royal Bank of Canada
Royal Trust

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 3000 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

Markel Syndicate 3000 ("the Syndicate") is the Lloyd's platform for Markel International. Markel International also writes business through Markel International Insurance Company Limited ("the Company").

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business from its offices in London and its overseas operations in Canada, Sweden, Singapore, Labuan, Hong Kong, Switzerland and Latin America.

Business profile and units

The Syndicate operates six underwriting units, namely Marine and Energy, Professional Liability, Specialty, Equine, Trade Credit, Casualty Treaty. In addition, Markel Corporation has a wholly-owned Canadian subsidiary, Elliott Special Risks (ESR), which underwrites on behalf of the Syndicate.

The Syndicate's Singapore office operates as a regional hub, supporting the Labuan and Hong Kong offices and underwrites marine and energy, professional and financial and trade credit risks throughout the Asia Pacific region. The Syndicate's operations in Switzerland and Latin America, which began underwriting in 2014, transact reinsurance business on a range of product lines including accident and health, property and surety.

Marine and Energy

The Marine and Energy unit underwrites a portfolio of coverages for cargo, energy, hull, liability, terrorism, war and specie risks through offices based in London, Singapore and Stockholm. The cargo account is an international transit and storage-based book covering many types of cargo. The energy account includes all aspects of oil and gas activities. The hull account covers physical damage to ocean-going tonnage, yachts, building risks and mortgagee's interest. The liability account provides coverage for a broad range of energy liabilities, as well as traditional marine exposures including charterers, terminal operators and ship repairers. The terrorism account covers physical damage resulting from terrorism, strikes, riots, war and political violence. The war account covers the hulls of ships and aircraft, and other related interests, against war and associated perils, including piracy. The specie account includes coverage for fine art on exhibit and in private collections, securities, bullion, precious metals, cash in transit and jewellery.

Professional Liability

The Professional Liability unit underwrites professional indemnity, emerging risks, management liability and financial institutions insurance. The professional indemnity account services most core and regulated professions as well as emerging professions and specialist risks such as patents, libel and slander, data breach and electronic risk (cyber). The emerging risks account includes specialisms in media, patent and intellectual property insurance as well as information technology, telecommunications and cyber/privacy risks. The management liability account spans a wide range of industries and coverage includes directors' and officers' liability (D&O), employment practices liability (EPL) and limited liability partnership (LLP) cover. Financial institutions insurance can provide cover on a stand alone basis or as a blended package to include bankers blanket bond, professional indemnity and D&O, depending on the clients requirements. The Professional Liability division writes business on a worldwide basis, limiting exposure in the United States.

Specialty

The Specialty unit provides property treaty reinsurance on an excess of loss and proportional basis for per risk and catastrophe exposures. A significant portion of the division's excess of loss catastrophe and per risk treaty business comes from the United States with the remainder coming from international property treaties. The Specialty division also offers direct coverage for a number of specialist classes including contingency, property open market, accident and health and other special risks.

Equine

The Equine unit writes equine and livestock products on a worldwide basis. The equine account provides coverage for risks of mortality, theft, infertility and specified perils for insureds ranging in size from large stud farms to private horse owners. The livestock account provides coverage for farms, zoos and animals in transit.

Trade Credit

The Trade Credit unit writes short-term trade credit coverage for commercial risks, including insolvency, protracted default and contract frustration. Political risks are covered in conjunction with commercial risks for currency inconvertibility, government action, import/export licence cancellation, public buyer default and war. Products include coverages for captive reinsurance, trade receivables securitisation, vendor financing, pre-credit/work in progress, anticipatory credit, factoring and contract replacement. Policies are designed to provide clients with certainty of cover and are underwritten with the aim of establishing a long-term partnership with the insured.

Casualty Treaty

The Casualty Treaty unit underwrites a diversified account, including motor and auto, general liability, professional indemnity, directors' and officers' liability and medical malpractice. The portfolio is worldwide, excluding US domiciled business. The unit ceased writing UK motor reinsurance business in the fourth quarter of 2014.

ESR

ESR underwrites a diverse portfolio of property and casualty coverages for Canadian domiciled insureds. ESR provides primary general liability, products liability, excess and umbrella, environmental liability and property coverages. ESR also writes professional indemnity, directors' and officers' and equine products.

Results and performance

The results for the year, as set out on pages 12 - 13 show a profit of £54.6m (2013, profit of £53.0m).

The underwriting profit of £18.6m in 2014 (2013, £35.2m profit) benefited from benign large loss and catastrophe activity during the year, partially offset by increased expenses in the year. The result included a release from prior year reserves of £33.6m (2013, £35.3m release). This release is a result of the Markel strategy to reserve prudently together with the work of our claims department in dealing with claims in an expeditious manner.

The investment return was £36.0m (2013, £17.8m) generating a yield of 5.6% (2013, 2.6% on the investment portfolio).

The overall profit of £54.6m (2013, profit of £53.0m) reflects the profitable underwriting performance and exceptional investment return.

Key Performance Indicators

Annual Accounting Data Profit and Loss Account	**2010 £'m**	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**
Gross written premiums	315.8	352.4	386.1	369.2	419.0
Net written premiums	268.6	303.8	326.2	314.6	350.1
Retention rate	85.1%	86.2%	84.5%	85.2%	83.6%
Net earned premiums	**243.5**	**292.6**	**325.8**	**312.5**	**329.5**
Net underwriting result	**(8.4)**	**(53.8)**	**23.6**	**35.2**	**18.6**
Loss & LAE ratio	66.5%	79.3%	51.6%	49.8%	51.6%
Expense ratio	37.0%	39.1%	41.2%	38.9%	42.8%
Combined ratio	**103.5%**	**118.4%**	**92.8%**	**88.7%**	**94.4%**
Investment return	36.4	43.1	36.1	17.8	36.0
Investment yield	5.8%	6.5%	5.3%	2.6%	5.6%
Profit/(loss)	**28.0**	**(10.6)**	**59.7**	**53.0**	**54.6**

Balance Sheet	**2010 £'m**	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**
Financial investments and cash	657.6	680.2	674.5	643.4	687.5
Gross claims outstanding	764.7	840.7	797.0	719.9	737.5
Reinsurers' share of claims outstanding	159.8	181.3	161.4	120.8	114.1
Net claims outstanding	604.9	659.5	635.6	599.1	623.4

Three Year Accounting Data	**2010 £'m**	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**
Syndicate Capacity	**300.0**	**340.0**	**340.0**	**340.0**	**500.0**
Underwriting result	(13.6)	(3.2)	38.1		
Investment result	38.5	24.8	32.6		
Result on closure	**24.9**	**21.6**	**70.7**		
Forecast return at 12 months	7.5%	(5.0)%	2.5%	10.0%	2.5%
Forecast return at 24 months	(7.5)%	2.5%	12.5%	5.0%	
Return on capacity at closure	**8.3%**	**6.4%**	**20.8%**		

- Underwriting Profits of £15.2m over the period 2010 – 2014, generating an average combined ratio of 99.0%. The 2010, 2011, 2012 and 2013 years experienced natural catastrophe losses of £80.1m. Excluding these natural catastrophe losses there was an underwriting profit of £95.3m, generating an average combined ratio of 93.7%.
- Profit of £184.7m over the period 2010 – 2014 through excellent investment returns which in turn offset the natural catastrophe losses.
- An increase in financial investments during 2014 reflects strong underwriting cashflows, investment value appreciation and foreign exchange gains; partially offset by the distribution of the 2011 year of account profit and expense payments.
- The reduction in reinsurers' share of claims outstanding during 2014 was primarily due to the settlement of claims and proactive collection of resinsurance recoveries.
- An average return on capacity of 20.8% for the 2002-2012 closed years of account.

Business environment and future prospects

With disciplined underwriting and a strong balance sheet the Syndicate is in an excellent position to capitalise on opportunities as they arise. The Syndicate will continue to apply Markel's underwriting discipline of underwriting for profit rather than volume and, accordingly, will decline business where the rates are not acceptable.

The Syndicate will continue to look to develop new lines of business and markets, within the parameters of the overall underwriting strategy. The Syndicate invests in high-quality corporate, government and municipal bonds as well as a diverse equity portfolio and plans to continue this investment strategy in 2015.

Following the 2013 acquisition of Alterra at Lloyd's Limited, the Syndicate's capacity was increased to £500m for the 2014 year of account. This remains unchanged for the 2015 year of account.

Principal risks and uncertainties

Markel International Limited has a risk register detailing the risks to which it is exposed, which includes all business underwritten by Syndicate 3000. Risks are 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.

At least annually an Own Risk and Solvency assessment report is produced being a forward looking assessment of the risk profile and adequacy of the syndicate's capital to meet solvency needs over the business planning time horizon.

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

Directors

The Directors of the Managing 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.

Syndicate 3000 is supported 100% by Markel Capital Limited and therefore no Director has any participation.

Corporate governance

Markel Syndicate Management Limited ("MSM"), the Lloyd's Managing Agent of Syndicate 3000, 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 Syndicate 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 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 re-appointment 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) the sole corporate member has 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 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 3000.

By order of the Board,

Andrew J Bailey
Secretary
London,

06 March 2015

Independent Auditor's report to the Member of Syndicate 3000

We have audited the Syndicate 3000 annual accounts for the year ended 31 December 2014, as set out on pages 12 to 29. 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 member of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's Member those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's Member 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 9, 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 (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 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 annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

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

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

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

		2014		2013	
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Earned premiums, net of reinsurance					
Gross written premiums	4	419,021		369,241	
Outward reinsurance premiums		(68,916)		(54,658)	
Net written premiums			**350,105**		**314,583**
Change in the gross provision for unearned premiums	18	(23,650)		(3,193)	
Change in the provision for unearned premiums, reinsurers' share	18	3,088		1,137	
Change in the provision for net unearned premiums			(20,562)		(2,056)
Net earned premiums			**329,543**		**312,527**
Allocated investment return transferred from the non-technical account	9		**35,964**		**17,803**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(172,003)		(224,122)	
Reinsurers' share		25,664		43,981	
Net paid claims			(146,339)		(180,141)
Change in the provision for claims					
Gross amount	18	(12,553)		63,282	
Reinsurers' share	18	(10,929)		(38,891)	
Net change in provision			(23,482)		24,391
Net claims incurred			**(169,821)**		**(155,750)**
Net operating expenses	6		(141,030)		(121,619)
Balance on the technical account			**54,656**		**52,961**

All operations relate to continuing business.

The notes on pages 18 to 29 form part of these Financial Statements.

Profit and Loss Account: Non-Technical Account

	Notes	2014 £'000	2013 £'000
Balance on the technical account		54,656	52,961
Investment income	7	21,744	31,858
Unrealised gains on investments		23,552	11,840
Investment expenses and charges	8	(3,738)	(2,820)
Unrealised losses on investments		(5,594)	(23,075)
Allocated investment return transferred to technical account	9	(35,964)	(17,803)
Profit for the financial year		**54,656**	**52,961**

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 18 to 29 form part of these Financial Statements.

Statement of Total Recognised Gains and Losses

	2014 £'000	2013 £'000
Profit for the financial year	54,656	52,961
Net foreign exchange revaluation gains/(losses)	800	(4,524)
Total recognised gains	**55,456**	**48,437**

The notes on pages 18 to 29 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		636,520		600,105
Reinsurers' share of technical provisions					
Provisions for unearned premiums	18	15,750		12,350	
Claims outstanding	18	114,142		120,849	
			129,892		**133,199**
Debtors					
Debtors arising out of direct insurance operations	15	29,418		21,637	
Debtors arising out of reinsurance operations	15	40,362		30,269	
Other debtors	16	13,232		4,376	
			83,012		**56,282**
Cash at bank			50,984		43,333
Prepayments and accrued income					
Accrued interest		4,711		4,983	
Deferred acquisition costs		31,584		26,509	
			36,295		**31,492**
Total Assets			**936,703**		**864,411**

The notes on pages 18 to 29 form part of these annual Financial Statements.

Balance Sheet: Liabilities

as at 31 December 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Capital and reserves					
Member's balance	17		50,743		16,931
Technical provisions					
Provisions for unearned premiums	18	145,845		119,616	
Claims outstanding	18	737,531		719,876	
			883,376		**839,492**
Creditors					
Creditors arising out of direct insurance operations	19	(1,041)		(336)	
Creditors arising out of reinsurance operations	19	1,775		7,850	
Other creditors	20	1,850		474	
			2,584		**7,988**
Total Liabilities			**936,703**		**864,411**

The Syndicate annual accounts on pages 1 - 29 were approved by the Board of Directors on 06 March 2015 and were signed on behalf of Markel Syndicate Management Limited by, Andrew Davies, Company Director.

Andrew J Davies
Director
London,

06 March 2015

The notes on pages 18 to 29 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 on ordinary activities		54,656	52,961
Net unrealised investment (losses)/gains including foreign exchange		(20,394)	28,687
Increase/(decrease) in net technical provisions		47,192	(38,293)
Foreign exchange movement on balance due to Member		800	(4,524)
Increase in debtors, prepayments and accrued income		(31,535)	(7,466)
Decrease in creditors, accruals and deferred income		(5,403)	(8,839)
Net cash inflow from operating activities		**45,316**	**22,526**
Transfer to the Member in respect of underwriting participation		(21,644)	(24,876)
Net investment of cash flows		**23,672**	**(2,350)**
Cash flows were invested as follows:			
Increase in cash holdings		6,992	6,310
Increase/(decrease) in portfolio investments		16,680	(8,660)
Net investment of cash flows	**21**	**23,672**	**(2,350)**

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 surplus 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 assests 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 participates in the Group's defined benefit and defined contribution schemes. Pension contributions relating to Syndicate staff are charged to the Syndicate and included in 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 underwriting risk, reserving risk, market risk, credit risk, liquidity risk and group risk.

a) Underwriting risk

Underwriting 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 acceptance of business.

All underwriting at MINT is governed by high level "underwriting principles" that set out imperatives for underwriting. The first of these is related to underwriting profitable business and is "price business at a level which would enable us to achieve the agreed target combined ratios under US GAAP". Our fundamental objective is to underwrite profitably on a gross basis and to achieve target combined ratios. A combined ratio is the ultimate loss ratio plus expense ratio. This measure of underwriting performance excludes any benefit from investment return and focuses attention on premium charged, coverage granted, commissions and other deductions and all direct and indirect expenses.

Our underwriters and divisions are assigned combined ratio targets and underwriting bonuses are based on the achievement of these targets. Bonuses are readjusted, and payments made over a number of years in line with management's assessment of how the claims are developing on that particular year's underwriting. The readjustment ensures that rewards are based on a continuing profitability of a year of account over its historical development and the phasing of payments assists in the retention of key underwriting staff.

We set prudent maximum linesizes. All underwriters have written underwriting authorities and there are peer reviews/review processes in place to ensure that business underwritten does not exceed authority or is outside our business plan. We do not permit risks to be written for longer than 18 months without the prior, written approval of the Director of Underwriting or the COO, although we do make certain general exceptions. For example, in respect of Marine Construction risks we have matching reinsurance and have agreed this in advance as part of our underwriting strategy. Compliance with linesize and policy duration is monitored by our Legal and Regulatory department.

Technical pricing has been developed for many classes, and we have monitored rate movements since 2002.

An independent reviewer performs a qualitative review of underwriting.

For natural catastrophe risk a key method of monitoring our aggregate exposures is the production of a quarterly "Aggregations pack" which sets out our exposures, both gross and net, to each material region\ peril we are exposed to. This is reviewed at a quarterly meeting by executives and other senior management along with the catastrophe modelling team and representatives from relevant Divisions. Divisions are given aggregate limits for catastrophe business in each zone and adherence to these is monitored within the pack. Natural catastrophe exposures form part of Risk Management's quarterly assessment of risk to the Risk Committee and to the Board.

b) 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 MINT. 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.

c) 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.

- Equity price risk: The Syndicate sets limits on the amount of equities that can be held overall and with any one issuer. The overall equity portfolio is also monitored to ensure that equity risk does not exceed the Syndicate's risk appetite.

d) 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 from 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.

e) 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.

f) 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 MINT.

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 MINT's legal entities and we endeavour to communicate the MINT perspective to Markel Corporation, with whom we enjoy an excellent relationship.

We also consider the risk of the Company and Syndicate 3000 being part of MINT. 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	9,779	7,631	(3,307)	(2,854)	(966)	504
Marine, aviation and transport	84,722	82,951	(45,885)	(28,127)	(2,580)	6,359
Fire and other damage to property	53,419	51,902	(18,881)	(18,618)	(11,612)	2,791
Third party liability	100,512	100,228	(46,079)	(40,286)	(6,502)	7,361
Miscellaneous	9,860	8,649	(4,134)	(2,302)	(1,209)	1,004
Total direct	**258,292**	**251,361**	**(118,286)**	**(92,187)**	**(22,869)**	**18,019**
Reinsurance	160,729	144,010	(66,270)	(48,843)	(28,224)	673
Total	**419,021**	**395,371**	**(184,556)**	**(141,030)**	**(51,093)**	**18,692**

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	4,905	4,819	(1,905)	(1,386)	(887)	641
Marine, aviation and transport	79,128	78,512	(37,964)	(25,465)	(8,255)	6,828
Fire and other damage to property	51,909	50,845	(17,639)	(16,126)	(10,425)	6,655
Third party liability	108,298	108,203	(44,442)	(43,844)	(9,144)	10,773
Miscellaneous	7,345	7,510	(4,221)	(2,010)	(706)	573
Total direct	**251,585**	**249,889**	**(106,171)**	**(88,831)**	**(29,417)**	**25,470**
Reinsurance	117,656	116,159	(54,669)	(32,787)	(19,014)	9,689
Total	**369,241**	**366,048**	**(160,840)**	**(121,618)**	**(48,431)**	**35,159**

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	70,305	30,249
Europe (excluding UK)	65,578	62,518
USA	100,998	84,669
Canada	69,465	75,968
Rest of the world	112,675	115,837
Total	**419,021**	**369,241**

5 Claims outstanding

Net reserves for claims outstanding at 31 December 2013 were reduced by £33.6m in calendar year 2014. Net reserves for claims outstanding at 31 December 2012 were reduced by £35.3m in calendar year 2013.

6 Net operating expenses

	2014 £'000	2013 £'000
Commission costs	87,570	75,768
Other acquisition costs	5,856	5,178
Change in deferred acquisition costs	(4,641)	(196)
Administrative expenses	54,042	42,217
Profit on exchange	(1,039)	(517)
Gross operating expenses	141,788	122,450
Reinsurance commissions	(758)	(831)
Net operating expenses	**141,030**	**121,619**

Commission paid during the year in respect of direct insurance business amounted to £65.3m (2013,£61.3m). Member's standard personal expenses are included within administrative expenses.

7 Investment income

	2014 £'000	2013 £'000
Income from investments	17,637	19,825
Gains on the realisation of investments	4,107	12,033
Total	**21,744**	**31,858**

8 Investment expenses and charges

	2014 £'000	2013 £'000
Investment management expenses, including interest	723	435
Losses on the realisation of investments	3,015	2,385
Total	**3,738**	**2,820**

9 Investment return

	2014 £'000	2013 £'000
Investment income	21,744	31,858
Net unrealised gains/(losses) on investments	17,958	(11,235)
Investment expenses and charges	(3,738)	(2,820)
Actual return on investments	**35,964**	**17,803**

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	1.65	1.57
Canadian Dollar	1.81	1.82	1.76	1.62
Euro	1.28	1.24	1.19	1.18
Australian Dollar	1.90	1.83	1.85	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 Report and Financial Statements.

The Directors' emoluments in the year were paid by MISL. A full disclosure of the Directors' emoluments in the year are disclosed in the accounts of Markel International Insurance Company Ltd.

12 Auditor's remuneration

	2014 £'000	2013 £'000
Audit of these Financial Statements	179	149
Other services pursuant to legislation	67	56
Total Auditor's remuneration	**246**	**205**

13 Emoluments of the active underwriter

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

	2014 £'000	2013 £'000
Emoluments	**487**	**464**

14 Investments

	Market Value		Cost	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Shares and other variable yield securities and units in unit trusts	77,220	45,520	54,939	31,793
Holdings in collective investment schemes	70,923	77,703	70,923	77,703
Debt securities and other fixed income securities	429,735	402,113	405,770	388,242
Overseas deposits	58,642	61,563	58,642	61,563
Deposits with credit institutions	-	13,206	-	13,206
Total	**636,520**	**600,105**	**590,274**	**572,507**

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	29,296	21,554	40,303	30,207
Amounts owed by intermediaries after more than one year	122	83	59	62
Total	**29,418**	**21,637**	**40,362**	**30,269**

16 Other debtors

	2014 £'000	**2013 £'000**
Amounts due from group undertakings	10,686	2,148
Other debtors	2,546	2,228
Amounts due within one year	**13,232**	**4,376**

17 Reconciliation of Member's balance

	2014 £'000	**2013 £'000**
Member's balance brought forward at 1 January	16,931	(6,630)
Profit for the financial year	54,656	52,961
Net foreign exchange revaluation gains/(losses)	800	(4,524)
Payments of profit to the Member's personal reserve fund	(21,644)	(24,876)
Member's balance carried forward at 31 December	**50,743**	**16,931**

The Member participates on the Syndicate by reference to years of account and their ultimate result. Assets and liabilities are assessed with reference to policies incepting in that year of account.

Year of Account development

Year of Account	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	Profit to Member at 36 months £'000
2007 & prior	35,656	43,498						
2008	(25,459)	25,858	34,563					34,962
2009		3,981	716	48,603				53,300
2010			(7,140)	(27,154)	59,170			24,876
2011				(34,566)	28,275	27,935		21,644
2012					(25,215)	38,138	57,798	70,721
2013						(17,636)	22,556	
2014							(24,898)	
Calendar Year Result	**10,197**	**73,337**	**28,139**	**(13,117)**	**62,230**	**48,437**	**55,456**	

A distribution of £70.7m to the corporate member has been proposed in relation to the 2012 year of account (2013: £21.6m 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	719,876	120,849	599,027	796,953	161,389	635,564
Movement in provision	12,553	(10,929)	23,482	(63,282)	(38,891)	(24,391)
Movement due to foreign exchange	5,102	4,222	880	(13,795)	(1,649)	(12,146)
Total movement in reserves	17,655	(6,707)	24,362	(77,077)	(40,540)	(36,537)
At 31 December	**737,531**	**114,142**	**623,389**	**719,876**	**120,849**	**599,027**

		2014			2013	
Provision for unearned premiums	**Gross £'000**	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
At 1 January	119,616	12,350	107,266	120,686	11,664	109,022
Movement in provision	23,650	3,088	20,562	3,193	1,137	2,056
Movement due to foreign exchange	2,579	312	2,267	(4,263)	(451)	(3,812)
Total movement in reserves	26,229	3,400	22,829	(1,070)	686	(1,756)
At 31 December	**145,845**	**15,750**	**130,095**	**119,616**	**12,350**	**107,266**

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	(1,064)	(336)	1,775	7,839
Amounts owed to intermediaries after more than one year	23	-	-	11
Total	**(1,041)**	**(336)**	**1,775**	**7,850**

The debit balances within amounts owed to intermediaries results from cash paid after the closure of our underwriting system, which occurs prior to year end. This cash represents paid claims which, when the Underwriting Signing Messages (USMs) are recognised in the following period, will reduce insurance reserves and hence reduce the liabilities on the balance sheet.

20 Other creditors

	2014 £'000	**2013 £'000**
Amounts due to other group undertakings	**1,850**	**474**

21 Movement in opening and closing portfolio investments net of financing

	2014 £'000	**2013 £'000**
Net cash inflow for the year	6,992	6,310
Cash flows:		
(Decrease)/increase in overseas deposits	(2,856)	4,724
Net portfolio investments	19,536	(13,384)
Movement arising from cash flows	23,672	(2,350)
Changes in market value and exchange rates	20,394	(28,687)
Total movement in portfolio investments	**44,066**	**(31,037)**
Portfolio at 1 January	643,438	674,475
Portfolio at 31 December	**687,504**	**643,438**

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	43,333	6,992	659	50,984
Overseas deposits	61,563	(2,856)	(65)	58,642
Portfolio investments:				
Shares and other fixed income securities and units in unit trusts	44,403	21,342	11,475	77,220
Holdings in collective investment schemes	78,820	(7,897)	-	70,923
Debt securities and other fixed income securities	402,113	19,001	8,621	429,735
Deposits with credit institutions	13,206	(12,910)	(296)	-
Total cash, portfolio investments and financing	**643,438**	**23,672**	**20,394**	**687,504**

23 Net cash outflow on portfolio investments

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities and units in unit trusts	(26,488)	(3,513)
Purchase of debt securities and other fixed income securities	(219,848)	(120,941)
Movement of holdings in collective investment schemes	7,897	(23,251)
Movement of holdings in deposits with credit institutions	12,910	8,796
Sale of shares and other variable yield securities and units in unit trusts	5,146	23,880
Sale of debt securities and other fixed income securities	200,847	128,413
Net cash (outflow)/inflow on portfolio investments	**(19,536)**	**13,384**

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.

During 2014 the Syndicate wrote gross written premiums of £11.4m and paid commissions of £3.1m in respect of business written through RK Harrison, a third-party broker of which director Ralph Snedden is also a diretor.

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.