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Markel Syndicate 3000

Annual Report and Financial Statements for the year ended 31 December 2015

Syndicate 3000
Annual Report and Financial Statements
for the year ended 31 December 2015

Contents

Directors and Administration

Managing Agent

Markel Syndicate Management Limited

Board of Directors

Ian Marshall	(Chairman)
Jeremy W Brazil	
Stephen M Carroll	(Resigned 2 June 2015)
Andrew J Davies	
Paul H Jenks	
Nicholas J S Line	
Hugh A J Maltby	(Appointed 20 March 2015)
Jeremy A Noble	(Appointed 9 September 2015)
Ralph C Snedden	
John W J Spencer	(Appointed 1 January 2016)
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 2015. These are prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008 and 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 ("MIICL").

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, Dubai and Brazil.

With effect from the 1 January 2016, the Syndicate will accept the 2013 year of account Reinsurance to Close from Syndicate 1400; a syndicate also managed by Markel Syndicate Management Limited ("MSM").

Business profile and units

The Syndicate operates six underwriting units, namely Marine and Energy, Professional Liability, Specialty, Equine, Trade Credit and Casualty Treaty. In addition, Markel Corporation ("Markel") has a wholly-owned Canadian subsidiary, Markel Canada Limited (previously Elliott Special Risks), 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 Brazil transact reinsurance business on a range of product lines including accident and health, property and surety. The operation in Dubai specialises in writing trade credit business from around the Gulf Cooperation Council (GCC) region, and offers comprehensive non-payment credit and contract frustration covers.

Marine and Energy

The Marine and Energy unit underwrites a portfolio of coverages for cargo, energy, hull, liability, terrorism, war, specie and ports and terminals risks. The cargo account comprises of a broad portfolio of transit and storage risks covering most industries on a global basis. 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 offers coverage for marine and aviation war across all vessel types and tonnages. The specie account includes coverage for fine art, exhibition business and other aspects of valuable item insurance. The ports and terminals account encompasses the complete range of insurance products to fulfil the requirements of port and terminal operators around the world.

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 other miscellaneous professions. 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 unit'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 unit 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 breeding and racing operations to private horse owners. The livestock account provides coverage for farms, zoos and quaria 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 general liability, professional indemnity, directors' and officers' liability and medical malpractice. The portfolio is worldwide, excluding United States domiciled business.

Markel Canada

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

Results and performance

The results for the year, as set out on pages 13 - 14, show a profit of £13.2m (2014, profit of £52.1m).

The underwriting profit of £6.2m in 2015 (2014, £16.2m 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 £32.4m (2014, £33.6m release). This release is a result of the Markel strategy to reserve prudently, more favourable claims development than originally anticipated and the work of our claims department in dealing with claims in an expeditious manner.

The investment return was £7.0m (2014, £36.0m) generating a yield of 1.0% (2014, 5.6%) on the investment portfolio. The lower investment return reflects reductions in both bond and equity valuations in the currently challenging investment environment.

The overall profit of £13.2m (2014, profit of £52.1m) reflects the profitable underwriting performance and investment return.

Key Performance Indicators

Annual Accounting Data Income Statement	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**	**2015 £'m**
Gross written premiums	352.4	386.1	369.2	419.0	429.0
Net written premiums	303.8	326.2	314.6	350.1	359.9
Retention rate	86.2%	84.5%	85.2%	83.6%	83.9%
Net earned premiums	**292.6**	**325.8**	**312.5**	**329.5**	**349.6**
Net underwriting result	**(53.8)**	**23.6**	**35.2**	**16.2**	**6.2**
Loss & LAE ratio	79.3%	51.6%	49.8%	51.6%	53.5%
Expense ratio	39.1%	41.2%	38.9%	43.5%	44.8%
Combined ratio	**118.4%**	**92.8%**	**88.7%**	**95.1%**	**98.3%**
Investment return	43.1	36.1	17.8	36.0	7.0
Investment yield	6.5%	5.3%	2.6%	5.6%	1.0%
Profit/(loss)	**(10.6)**	**59.7**	**53.0**	**52.2**	**13.2**

Statement of Financial Position	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**	**2015 £'m**
Financial investments and cash	680.2	674.5	643.4	687.5	658.8
Gross claims outstanding	840.7	797.0	719.9	737.5	737.9
Reinsurers' share of claims outstanding	181.3	161.4	120.8	114.1	103.8
Net claims outstanding	659.5	635.6	599.1	623.4	634.1

Three Year Accounting Data	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**	**2015 £'m**
Syndicate Capacity	**340.0**	**340.0**	**340.0**	**500.0**	**500.0**
Underwriting result	(3.2)	38.1	21.7		
Investment result	24.8	32.6	13.3		
Result on closure	**21.6**	**70.7**	**35.0**		
Forecast return at 12 months	(5.0)%	2.5%	10.0%	2.5%	1.5%
Forecast return at 24 months	2.5%	12.5%	5.0%	5.0%	
Return on capacity at closure	**6.4%**	**20.8%**	**10.3%**		

- Underwriting profits of £27.4m over the period 2011 – 2015, generating an average combined ratio of 98.3%. The 2011, 2012 and 2013 years experienced natural catastrophe losses of £83.2m. Excluding these natural catastrophe losses there was an underwriting profit of £110.6m, generating an average combined ratio of 93.1%.
- Profit of £167.5m over the period 2011 – 2015 through solid investment returns which in turn offset the natural catastrophe losses.

- A decrease in financial investments during 2015 reflects the distribution of the 2012 year of account profit, increased expense payments, investment value deterioration and foreign exchange losses; partially offset by strong underwriting cashflows and investment income.
- The reduction in reinsurers' share of claims outstanding during 2015 was primarily due to the settlement of claims and proactive collection of reinsurance recoveries.
- An average return on capacity of 20.0% for the 2002-2013 closed years of account.

Business environment and future prospects

No material uncertainties have been identified by the Directors that cast significant doubt about the ability of the Syndicate to continue as a going concern. The Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

With disciplined underwriting and a strong Statement of Financial Position 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 2016.

The Syndicate capacity for the 2015 year of account was £500m. This remains unchanged for the 2016 year of account.

Principal risks and uncertainties

Markel International Limited ("MINT") has a risk register detailing the risks to which it is exposed, which includes all business underwritten by the Syndicate. Risks are grouped under the following categories:

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

The management of financial risk note (note 3, page 23) provides a detailed explanation of the risk categories.

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 the Syndicate 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.

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.

MSM is in compliance with Solvency II.

Directors

The Directors of the Managing Agent who served during 2015 and up to the date of this report were as follows:

Ian Marshall	(Chairman)
Jeremy W Brazil	
Stephen M Carroll	(Resigned 2 June 2015)
Andrew J Davies	
Paul H Jenks	
Nicholas J S Line	
Hugh A J Maltby	(Appointed 20 March 2015)
Jeremy A Noble	(Appointed 9 September 2015)
Ralph C Snedden	
John W J Spencer	(Appointed 1 January 2016)
William D Stovin	
Anne Whitaker	

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

The Syndicate is supported 100% by Markel Capital Limited ("MCAP") and therefore no Director has any participation.

Corporate governance

MSM, the Lloyd's Managing Agent of the Syndicate, is authorised by the Prudential Regulation Authority ("PRA"). The Board includes four non-executive Directors and meets at least quarterly. Sub-committees of the Board include the Audit Committee, Risk and Capital Committee, Wholesale Board, National markets Board and the Conduct Oversight Group.

Financial instruments and risk management

Information on the use of financial instruments by MINT 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”, MSM 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 Report of the Managing Agent 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,

1 March 2016

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 Financial Statements at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Syndicate 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 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 judgments 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 Financial Statements; and
- prepare the Syndicate 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 that 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 business website. Legislation in the UK governing the preparation and dissemination of Syndicate Financial Statements may differ from legislation in other jurisdictions.

By order of the Board,

Andrew J Bailey
Secretary
London,

1 March 2016

Independent Auditor's report to the Member of Syndicate 3000

We have audited the Syndicate 3000 annual accounts for the year ended 31 December 2015, as set out on pages 13 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 and 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 10, the Managing Agent is responsible for the preparation of the Syndicate Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate Financial Statements 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 Financial Statements 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 state of the Syndicate’s affairs as at 31 December 2015 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 Report of the Managing Agent’s for the financial year in which the Financial Statements are prepared is consistent with the Financial Statements.

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

1 March 2016

Income Statement: Technical Account

		2015		2014	
	Notes	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross written premiums	4	429,029		419,021	
Outward reinsurance premiums		(69,161)		(68,916)	
Net written premiums			**359,868**		**350,105**
Change in the gross provision for unearned premiums	18	(8,046)		(23,650)	
Change in the provision for unearned premiums, reinsurers' share	18	(2,193)		3,088	
Change in the provision for net unearned premiums			(10,239)		(20,562)
Net earned premiums			**349,629**		**329,543**
Allocated investment return transferred from the non-technical account	9		**6,971**		**35,964**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(204,536)		(172,003)	
Reinsurers' share		37,084		25,664	
Net paid claims			(167,452)		(146,339)
Change in the provision for claims					
Gross amount	18	(6,831)		(12,553)	
Reinsurers' share	18	(12,608)		(10,929)	
Net change in provision			(19,439)		(23,482)
Net claims incurred			**(186,891)**		**(169,821)**
Net operating expenses	6		(156,507)		(143,540)
Balance on the technical account			**13,202**		**52,146**

All operations relate to continuing business.

The notes on pages 19 to 37 form part of these Financial Statements.

Income Statement: Non-Technical Account

	Notes	2015 £'000	2014 £'000
Balance on the technical account		**13,202**	**52,146**
Investment income	7	20,196	21,744
Unrealised gains on investments		4,957	23,552
Investment expenses and charges	8	(2,821)	(3,738)
Unrealised losses on investments		(15,361)	(5,594)
Allocated investment return transferred to technical account	9	(6,971)	(35,964)
Profit for the financial year		**13,202**	**52,146**

All operations relate to continuing business.

The notes on pages 19 to 37 form part of these Financial Statements.

Statement of Comprehensive Income and Member's Balances

for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Profit for the financial year		**13,202**	**52,146**
Net foreign exchange (losses)/gains on translation of functional currency		(256)	3,310
Total comprehensive income for the year		12,946	55,456
Member's balance brought forward at 1 January		**50,743**	**16,931**
Total comprehensive income for the year		12,946	55,456
Payments of profit to the Member's personal reserve fund	17	(70,721)	(21,644)
Member's balance carried forward at 31 December		**(7,032)**	**50,743**

Statement of Financial Position: Assets

as at 31 December 2015

		2015		2014	
	Notes	£'000	£'000	£'000	£'000
Investments					
Financial investments	14		584,553		636,520
Reinsurers' share of technical provisions					
Provisions for unearned premiums	18	13,451		15,750	
Claims outstanding	18	103,785		114,142	
			117,236		**129,892**
Debtors					
Debtors arising out of direct insurance operations	15	45,566		29,418	
Debtors arising out of reinsurance operations	15	33,494		40,362	
Other debtors	16	2,517		13,232	
			81,577		**83,012**
Cash at bank			74,262		50,984
Prepayments and accrued income					
Accrued interest		4,236		4,711	
Deferred acquisition costs	18	32,923		31,584	
			37,159		**36,295**
Total Assets			**894,787**		**936,703**

The notes on pages 19 to 37 form part of these annual Financial Statements.

Statement of Financial Position: Liabilities
as at 31 December 2015

		2015		2014	
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Capital and reserves					
Member's balance			(7,032)		50,743
Technical provisions					
Provisions for unearned premiums	18	153,104		145,845	
Claims outstanding	18	737,922		737,531	
			891,026		**883,376**
Creditors					
Creditors arising out of direct insurance operations	19	(2,829)		(1,041)	
Creditors arising out of reinsurance operations	19	4,812		1,775	
Other creditors	20	8,810		1,850	
			10,793		**2,584**
Total Liabilities			**894,787**		**936,703**

The Syndicate annual accounts on pages 1 - 37 were approved by the Board of Directors on 1 March 2016 and were signed on behalf of Markel Syndicate Management Limited by, Andrew Davies, Company Director.

Andrew J Davies
Director
London,

1 March 2016

The notes on pages 19 to 37 form part of these annual Financial Statements.

Statement of Cash Flows

	2015		2014	
	£'000	£'000	£'000	£'000
Operating result	13,202		52,146	
Increase in gross technical provisions	7,650		43,884	
Decrease in reinsurers' share of gross technical provisions	12,656		3,307	
Decrease/(increase) in debtors, prepayments and accrued income	573		(31,535)	
Decrease/(increase) in creditors, accruals and deferred income	8,209		(5,403)	
Investment return	(6,971)		(35,964)	
Foreign exchange movement on balance due to Member	(256)		3,310	
Net cash flows from operating activities		**35,063**		**29,745**
Acquisitions of other financial instruments	(204,844)		(463,724)	
Proceeds from sale of other financial instruments	255,743		431,278	
Investment income received	17,375		18,006	
(Increase)/decrease in overseas deposits	(6,098)		2,856	
(Increase)/decrease in deposits with credit institutions	(9,800)		12,910	
Changes to Market Value and currency	17,388		(2,436)	
Net cash flows from investing activities		**69,764**		**(1,110)**
Transfer to the Member in respect of underwriting participation	(70,721)		(21,644)	
Effect of exchange rate changes on cash and cash equivalents	(1,028)		660	
Net cash flow from financing activities		**(71,749)**		**(20,984)**
Net increase in cash and cash equivalents		**33,078**		**7,651**
Cash and cash equivalents at 1 January		50,984		43,333
Cash and cash equivalents at end of year		84,062		50,984
Cash at bank and in hand		74,262		50,984
Short term deposits with credit institutions		9,800		-
Cash and cash equivalents at 31 December		**84,062**		**50,984**

Notes to the Financial Statements

1 Basis of preparation

The Financial Statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in March 2014.

The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2015. An explanation of how transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 22.

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) Use of judgements and estimates

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Further detail on the use of judgements and estimates is detailed in the underwriting result policy.

b) 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 reporting 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 includes an 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 reporting 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 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.

c) Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the Income Statement. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate’s investment strategy.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

Measurement

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

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 Income Statement: Non-Technical 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 reporting 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 Income Statement: Non-Technical Account. A transfer is made from the Income Statement: Non-Technical account to the Income Statement: Technical Account to reflect the investment return on funds supporting underwriting business.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

d) Investments

Financial investments are stated at market value, based on bid price and deposits with credit institutions are stated at cost. Financial investments recorded at market value will fall into one of the three levels in the fair value hierarchy as follows;

i) Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

ii) Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

iii) Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

e) Foreign currency translation

The Syndicate presents its accounts in sterling (the 'reporting currency') since they are subject to regulation in the United Kingdom. Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the Syndicate is deemed to be US dollars.

Transactions in foreign currencies are translated at the average rates of exchange for the period.

Monetary assets and liabilities are translated at the rate of exchange at the reporting date or if appropriate at the forward contract rate. Non-monetary assets and liabilities are translated at the rate of exchange preceding on recognition.

All exchange differences arising on the translation of the results and financial position in US dollars (the functional currency) into sterling (the reporting currency) are recognised in the Statement of Comprehensive Income. Exchange differences on all other currencies are recognised within other operating expenses in the Income Statement: Technical Account.

f) Taxation

Under Schedule 19 of the Finance Act 1993, Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to Members or their Members' Agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States 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 Statement of Financial Position under the heading 'other debtors'.

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

g) Pension costs

MSM 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 Risk and capital management

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". MINT's 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.

MINT's underwriters and units 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.

MINT sets 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. Risks exceeding 18 months are not permitted to be written without the prior, written approval of the Director of Underwriting, although certain general exceptions are made. For example, in respect of Marine Construction risks where matching reinsurance exists and this has been agreed in advance as part of the 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 rate movements have been monitored since 2002.

An independent reviewer performs a qualitative review of underwriting.

For natural catastrophe risk a key method of monitoring MINT's aggregate exposures is the production of a quarterly "Aggregations pack" which sets out our exposures, both gross and net, to each material region/peril MINT 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 Units. Units 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 MINT's 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. Combined Ratio packs are produced which contain gross and net projections for all classes of business written at MINT. The Combined Ratio packs are discussed in detail at quarterly "Combined Ratio Meetings", which are attended by members of the Board, each division and the reserving Actuaries.

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.

Risk appetites are agreed annually by the Board to limit investment concentration. Adherence to these is monitored at the Market Risk Committee and also at the Risk and Capital Committee through Key Risk Indicators. Any exceptions to risk appetite are reported to the Board.

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.

The table below sets out the Syndicates sensitivity to interest rate movement.

	2015 £'000
Interest rate risk	
Impact of 50 basis point increase on result	(8,544)
Impact of 50 basis point decrease on result	8,825
Impact of 50 basis point increase on net assets	(8,544)
Impact of 50 basis point decrease on net assets	8,825
Price risk	
Impact on result of 5% increase in Stock Market Prices	3,102
Impact on result of 5% decrease in Stock Market Prices	(3,102)
Impact on net assets of 5% increase in Stock Market Prices	3,102
Impact on net assets of 5% decrease in Stock Market Prices	(3,102)

- 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.

The table below details the matching of material currencies in the Statement of Financial Position.

2015 Currency Code	GBP'000	USD'000	EUR'000	CAD'000	AUD'000	JPY'000	Other'000	Total'000
Financial investments	42,404	281,032	106,154	125,140	25,853	-	3,970	584,553
Reinsurers' share of technical provisions	27,864	72,700	1,749	7,484	3,289	14	4,136	117,236
Insurance and reinsurance receivables	22,254	50,179	(5,046)	10,747	2,860	(1,858)	(76)	79,060
Cash and cash equivalents	7,238	18,741	29,219	(113)	2,161	6,489	10,527	74,262
Other assets	3,409	21,325	3,931	9,309	715	112	875	39,676
Total assets	**103,169**	**443,977**	**136,007**	**152,567**	**34,878**	**4,757**	**19,432**	**894,787**
Technical provisions	(161,262)	(416,588)	(138,427)	(121,862)	(26,816)	(6,127)	(19,944)	(891,026)
Insurance and reinsurance payables	10,116	(4,705)	(594)	(1,428)	(1,348)	(97)	(3,927)	(1,983)
Other creditors	(8,009)	709	(4)	(1,009)	-	(41)	(456)	(8,810)
Total liabilities	**(159,155)**	**(420,584)**	**(139,025)**	**(124,299)**	**(28,164)**	**(6,265)**	**(24,327)**	**(901,819)**

- 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 99% of the Syndicate's fixed maturity portfolio is rated 'A' or better.

The board sets risk appetites for the amount of exposure it is prepared to accept in respect of reinsurers brokers. These are monitored through reports to Risk and Capital Committee and any exceptions are reported to the board.

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.

The table below provides detail of the credit rating by asset class.

2015	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**BBB or less £'000**	**Not rated £'000**	**Total £'000**
Shares and other variable yield securities and unit trusts	50,695	33,406	3,704	-	-	62,042	149,847
Debt securities	175,217	171,627	14,819	1,551	-	-	363,214
Deposits with credit institutions	9,800	-	-	-	-	-	9,800
Overseas deposits as investments	31,043	11,508	5,148	13,821	72	100	61,692
Reinsurers' share of claim outstanding	-	5,002	95,160	120	-	3,503	103,785
Reinsurance debtors	-	-	186	-	-	1,377	1,563
Cash at bank and in hand	-	90	11,057	63,115	-	-	74,262
Total credit risk	**266,755**	**221,633**	**130,074**	**78,607**	**72**	**67,022**	**764,163**

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.

The average duration of liabilities is 4 years. The duration of the Syndicate's investment portfolio is managed to match the expected cash outflows on liabilities.

Each year liquidity stress tests are undertaken to consider possible liquidity pressures which could arise following a significant natural catastrophe, including trust fund requirements. These tests are considered by the Risk & Capital Committee in order to determine that liquidity risk has been mitigated to a satisfactory level.

f) Group risk

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

It is considered that being part of a larger, experienced insurance group, with considerable financial resources and sound reputation to be a strength. MINT has a number of controls, such as internal committees that consider the interests of MINT’s legal entities and endeavour to communicate the MINT perspective to Markel, with whom an excellent relationship is enjoyed.

The risk of the Syndicate being part of MINT is also considered. The policy is always to consider the interests of each legal entity, and this single risk strategy, risk management approach, operational procedures and standards are effective in ensuring that each entity is treated equitably.

Capital management

The Society of Lloyd's ("Lloyd's") is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority ("PRA") under the Financial Services and Markets Act 2000, and in accordance with Solvency II Framework.

Within this supervisory framework, Lloyd’s applies capital requirements at member level and centrally to ensure that Lloyd’s would comply with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Every member is required to hold capital at Lloyd’s, which is held in trust and known as 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.

4 Segmental analysis

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

2015 Calendar Year	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct insurance						
Accident & health	11,402	11,362	(5,687)	(4,182)	(812)	681
Marine, aviation and transport	90,561	87,880	(53,161)	(33,212)	(8,581)	(7,074)
Fire and other damage to property	73,927	67,589	(23,070)	(27,112)	(11,716)	5,691
Third party liability	96,193	96,494	(57,206)	(35,278)	8,951	12,961
Miscellaneous	14,807	11,006	(5,575)	(5,430)	(1,054)	(1,053)
Total direct	**286,890**	**274,331**	**(144,699)**	**(105,214)**	**(13,212)**	**11,206**
Reinsurance	142,139	146,652	(66,668)	(52,127)	(32,832)	(4,975)
Total	**429,029**	**420,983**	**(211,367)**	**(157,341)**	**(46,044)**	**6,231**

2014 Calendar Year	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct insurance						
Accident & health	9,779	7,631	(3,307)	(3,362)	(948)	14
Marine, aviation and transport	84,722	82,951	(45,885)	(29,177)	(2,427)	5,462
Fire and other damage to property	53,419	51,902	(18,881)	(18,398)	(11,515)	3,108
Third party liability	100,512	100,228	(46,079)	(34,617)	(6,320)	13,212
Miscellaneous	9,860	8,649	(4,134)	(3,391)	(1,192)	(68)
Total direct	**258,292**	**251,361**	**(118,286)**	**(88,945)**	**(22,402)**	**21,728**
Reinsurance	160,729	144,010	(66,270)	(55,353)	(27,933)	(5,546)
Total	**419,021**	**395,371**	**(184,556)**	**(144,298)**	**(50,335)**	**16,182**

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

b) Analysis of premium by destination:

	Gross Written Premiums	
	2015 £'000	**2014 £'000**
UK	69,045	70,305
Europe (excluding UK)	62,285	65,578
USA	122,219	100,998
Canada	69,371	69,465
Rest of the world	106,109	112,675
Total	**429,029**	**419,021**

5 Claims outstanding

Net reserves for claims outstanding at 31 December 2014 were reduced by £32.4m in calendar year 2015. Net reserves for claims outstanding at 31 December 2013 were reduced by £33.6m in calendar year 2014.

6 Net operating expenses

	2015 £'000	2014 £'000
Commission costs	89,238	87,570
Other acquisition costs	5,485	5,856
Change in deferred acquisition costs	(1,825)	(4,641)
Administrative expenses	66,172	54,042
(Profit)/Loss on exchange	(1,729)	1,471
Gross operating expenses	157,341	144,298
Reinsurance commissions & profit participations	(834)	(758)
Net operating expenses	**156,507**	**143,540**

Commission paid during the year in respect of direct insurance business amounted to £71.1m (2014, £65.3m). Member's standard personal expenses are included within administrative expenses.

7 Investment income

	2015 £'000	2014 £'000
Income from investments	16,706	17,637
Gains on the realisation of investments	3,490	4,107
Total	**20,196**	**21,744**

8 Investment expenses and charges

	2015 £'000	2014 £'000
Investment management expenses, including interest	1,673	723
Losses on the realisation of investments	1,148	3,015
Total	**2,821**	**3,738**

9 Investment return

	2015 £'000	2014 £'000
Investment income	20,196	21,744
Net unrealised (losses)/gains on investments	(10,404)	17,958
Investment expenses and charges	(2,821)	(3,738)
Actual return on investments	**6,971**	**35,964**

10 Rates of exchange

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

	Year-End Rate 2015	Average Rate 2015	Year-End Rate 2014	Average Rate 2014
US dollar	1.48	1.53	1.56	1.65
Canadian dollar	2.06	1.96	1.81	1.82
Euro	1.36	1.38	1.28	1.24
Australian dollar	2.03	2.04	1.90	1.83

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 MIICL.

12 Auditor's remuneration

	2015 £'000	2014 £'000
Audit of these Financial Statements	179	179
Other services pursuant to legislation	70	67
Total Auditor's remuneration	**249**	**246**

Auditor's remuneration is included as part of administrative expenses in note 6 of these Financial Statements.

13 Remuneration of the active underwriter

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

	2015 £'000	2014 £'000
Emoluments	**498**	**487**

14 Investments

	Market Value		Cost	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Shares and other variable yield securities and units in unit trusts	62,042	77,220	39,909	54,939
Holdings in collective investment schemes	87,805	70,923	87,805	70,923
Debt securities and other fixed income securities	363,214	429,735	347,992	405,770
Overseas deposits	61,692	58,642	61,692	58,642
Deposits with credit institutions	9,800	-	9,800	-
Total	**584,553**	**636,520**	**547,198**	**590,274**

The following table shows financial investments recorded at Market Value analysed between the three levels in the Market Value hierarchy as detailed in note 2(c).

2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other fixed income securities and units in unit trusts	62,042	-	-	62,042
Holdings in collective investment schemes	87,805	-	-	87,805
Debt securities and other fixed income securities	-	363,214	-	363,214
Overseas Deposits	-	61,692	-	61,692
Deposits with credit institutions	9,800	-	-	9,800
Total	**159,647**	**424,906**	**-**	**584,553**

2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other fixed income securities and units in unit trusts	77,220	-	-	77,220
Holdings in collective investment schemes	70,923	-	-	70,923
Debt securities and other fixed income securities	-	429,735	-	429,735
Overseas deposits	-	58,642	-	58,642
Deposits with credit institutions	-	-	-	-
Total	**148,143**	**488,377**	**-**	**636,520**

15 Debtors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Amounts owed by intermediaries within one year	45,458	29,296	33,457	40,303
Amounts owed by intermediaries after more than one year	108	122	37	59
Total	**45,566**	**29,418**	**33,494**	**40,362**

16 Other debtors

	2015 £'000	2014 £'000
Amounts due from group undertakings	407	10,686
Other debtors	2,110	2,546
Amounts due within one year	**2,517**	**13,232**

17 Year of Account development

Year of Account	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Profit to Member at 36 months £'000
2008 & prior	69,356	34,563						
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	30,116	35,036
2014						(24,898)	30,866	
2015							(48,036)	
Calendar Year Result	**73,337**	**28,139**	**(13,117)**	**62,230**	**48,437**	**55,456**	**12,946**	

A distribution of £35.0m to the corporate member has been proposed in relation to the 2013 year of account (2014: £70.7m in relation to the 2012 year of account).

18 Technical provisions

	2015			2014		
Provision for claims outstanding	**Gross £'000**	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
At 1 January	737,531	114,142	623,389	719,876	120,849	599,027
Movement in provision	6,831	(12,608)	19,439	12,553	(10,929)	23,482
Movement due to foreign exchange	(6,440)	2,251	(8,691)	5,102	4,222	880
Total movement in reserves	391	(10,357)	10,748	17,655	(6,707)	24,362
At 31 December	**737,922**	**103,785**	**634,137**	**737,531**	**114,142**	**623,389**

Provision for unearned premiums	2015 Gross £'000	2015 Reinsurance £'000	2015 Net £'000	2014 Gross £'000	2014 Reinsurance £'000	2014 Net £'000
At 1 January	145,845	15,750	130,095	119,616	12,350	107,266
Movement in provision	8,046	(2,193)	10,239	23,650	3,088	20,562
Movement due to foreign exchange	(787)	(106)	(681)	2,579	312	2,267
Total movement in reserves	7,259	(2,299)	9,558	26,229	3,400	22,829
At 31 December	**153,104**	**13,451**	**139,653**	**145,845**	**15,750**	**130,095**

Deferred acquisition costs	2015 £'000	2014 £'000
At 1 January	31,584	26,509
Change in deferred acquisition costs	1,825	4,641
Movement due to foreign exchange	(486)	434
At 31 December	**32,923**	**31,584**

Gross outstanding claims provision as at 31 December 2015

Before the effect of reinsurance, the loss development table is:

Underwriting year	All prior years £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of cumulative claims incurred							
At end of underwriting year		122,266	119,829	79,728	108,036	102,097	
One year later		220,684	190,003	171,215	219,634		
Two years later		250,919	198,564	176,227			
Three years later		238,560	193,364				
Four years later		226,131					
Cumulative paid claims							
At end of underwriting year		(14,778)	(6,746)	(9,652)	(7,187)	(9,648)	
One year later		(56,780)	(50,988)	(46,219)	(57,251)		
Two years later		(118,283)	(81,981)	(82,491)			
Three years later		(152,622)	(106,644)				
Four years later		(174,996)					
Gross outstanding claims provision at 31 December 2015 at original exchange rates	251,197	51,135	86,720	93,736	162,383	92,449	737,620
Foreign exchange adjustment		1,905	820	(1,351)	(939)	(133)	302
Total outstanding claims provision per the Statement of Financial Position	**251,197**	**53,040**	**87,540**	**92,385**	**161,444**	**92,316**	**737,922**

Net outstanding claims provision as at 31 December 2015
After the effect of reinsurance, the loss development table is:

Underwriting year	All prior years £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of cumulative claims incurred							
At end of underwriting year		111,756	99,575	(302)	102,163	93,238	
One year later		188,061	167,273	158,915	197,169		
Two years later		210,174	177,274	164,399			
Three years later		201,040	170,673				
Four years later		193,222					
Cumulative paid claims							
At end of underwriting year		(14,248)	(6,633)	(8,752)	(7,064)	(9,327)	
One year later		(55,157)	(48,018)	(43,734)	(54,494)		
Two years later		(99,968)	(74,421)	(74,706)			
Three years later		(125,659)	(97,983)				
Four years later		(140,931)					
Net outstanding claims provision at 31 December 2015 at original exchange rates	192,710	52,291	72,690	89,693	142,675	83,911	633,970
Foreign exchange adjustment		1,369	919	(1,132)	(858)	(131)	167
Total outstanding claims provision per the Statement of Financial Position	**192,710**	**53,660**	**73,609**	**88,561**	**141,817**	**83,780**	**634,137**

19 Creditors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2015 £'000	**2014 £'000**	**2015 £'000**	**2014 £'000**
Amounts owed to intermediaries within one year	(2,830)	(1,064)	4,812	1,775
Amounts owed to intermediaries after more than one year	1	23	-	-
Total	**(2,829)**	**(1,041)**	**4,812**	**1,775**

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 are recognised in the following period, will reduce insurance reserves and hence reduce the liabilities on the Statement of Financial Position.

20 Other creditors

	2015 £'000	2014 £'000
Amounts due to other group undertakings	**8,810**	**1,850**

21 Related parties

MISL provides services to the Syndicate. The amounts charged to and balances due (from)/to the Syndicate at the year end are:

	2015 £'000	2014 £'000
Expenses recharged	(77,832)	(69,425)
Expenses settled in the year	61,582	77,104
Year end balance due (from)/to the Syndicate	(6,564)	9,686

The Syndicate pays Canadian and United States Income Tax which is reimbursed by MCAP. The Syndicate has paid the following amounts and balances due to the Syndicate at the year end are:

	2015 £'000	2014 £'000
United States and Canadian Income Tax paid by the Syndicate in the year	4,432	862
United States and Canadian Income Tax reimbursed by MCAP in the year	(4,901)	-
Year end balance due to the Syndicate	393	862

The following companies provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the year end are:

	Management Fees Charged 2015 £'000	Management Fees Settled 2015 £'000	YE balance due from the Syndicate 2015 £'000	Management Fees Charged 2014 £'000	Management Fees Settled 2014 £'000	YE balance due from the Syndicate 2014 £'000
Markel International Singapore PTE Limited	(302)	522	(302)	(268)	-	(522)
Markel International Hong Kong Limited	(35)	-	(138)	(31)	-	(103)
Markel Europe Limited	-	-	(75)	-	-	(75)
Markel International Labuan Limited	(54)	-	(135)	(39)	-	(81)

The Syndicate reinsures Markel Resseguradora Do Brasil S.A, a fellow group company, for premiums written on their Surety account. The following reinsurance amounts in the year and balances at the end of the year are:

	2015 £'000
Premiums assumed	(276)
Incurred claims movement	-
Year end balance due to the Syndicate	144

There is no 2014 comparative information for this related party.

The Syndicate has a reinsurance arrangement with MIICL in relation to its US Wind and Quake, Japanese Wind and Quake and European Wind exposure.

The Syndicate has recognised the following amounts in the year and the balances due from the Syndicate at the end of the year relating to these are:

	2015 £'000	2014 £'000
Premiums ceded to MIICL	(7,843)	(5,939)
Incurred claims movement	-	-
Year end balance due from the Syndicate	-	-

MGAM is the Syndicate investment manager. The following amounts have been charged to the Syndicate:

	2015 £'000	2014 £'000
Fees paid	1,673	723
Year end balance due from the Syndicate	(386)	-

During 2015 the Syndicate wrote gross written premiums of £12.3m and paid commission of £2.5m in respect of business written through RK Harrison, a third-party broker of which director Ralph Snedden was also a director until 29 April 2015.

22 Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2015. Accounting for foreign currency translation is the only change to the Syndicate's accounting policy arising on transition.

The Syndicate has amended its foreign exchange accounting policy to reflect the change in treatment of foreign exchange gains/losses recognised in the Income Statement and Statement of Comprehensive Income. The effect of this change on 31 December 2014 profit for the year is noted in the table below:

Reconciliation of profit and loss for the year ended 31 December 2014	**2014 £'000**
Profit for the year ended 31 December 2014 under previous UK GAAP	54,656
Foreign exchange losses	(2,510)
Profit for the year ended 31 December 2014 under FRS 102 and FRS 103	52,146

FRS 103 requires insurance assets and liabilities (unearned premium and deferred acquisition costs) to be treated as monetary items, and as such revalued at the underlying exchange rates prevailing at the reporting date. The Syndicate historically accounted for foreign currency translation of non-monetary items under 'branch accounting' rules permitted by SSAP 20. This treatment is consistent with FRS 103 and therefore there are no adjustments to the member's balances in the transition to FRS 102 and FRS 103.

Any other changes arising on adoption of FRS 102 are presentational.

We have not adopted any of the FRS 102 exemptions.