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Markel Syndicate 3000

Annual Report and Financial Statements for the year ended 31 December 2016

MARKEL®

Syndicate 3000
Annual Report and Financial Statements
for the year ended 31 December 2016

Contents

Directors and Administration

Managing Agent

Markel Syndicate Management Limited

Board of Directors

Ralph C Snedden (Chairman)
Ian Marshall
Jeremy W Brazil
Andrew J Davies
Paul H Jenks
Nicholas J S Line
Hugh A J Maltby
Jeremy A Noble
John W J Spencer
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 PLC
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 2016. 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 Limited ("MINT"). MINT 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 accepted the 2013 year of account Reinsurance to Close ("RITC") from Syndicate 1400; a syndicate previously managed by Markel Syndicate Management Limited ("MSM").

Business profile and units

The Syndicate operates three London based underwriting units, namely Specialty and Financial Lines, Marine, Energy and Property, Reinsurance as well as units in Asia, Latin America and Canada. Markel Canada Limited, a wholly owned subsidiary of Markel Corporation ("Markel") 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, and it also writes professional indemnity, directors' and officers' and equine products.

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 is also a member of Lloyd's platforms in Dubai, Shanghai and Japan. 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 three London wholesale units are:

Specialty and Financial Lines

A worldwide portfolio of primary and excess coverage for personal accident, contingency and entertainment, equine and livestock, professional and financial risks and trade credit and political risk.

Personal Accident, Contingency and Entertainment

The personal accident account focuses upon professional sports, locum schemes, affinity, high net worth and entrepreneurs and business travel.

The contingency team underwrites a broad spectrum of London market non-appearance and event cancellation business.

The entertainment account offers both employers and public liability for companies involved in film shoots. Clients tend to be UK based but the shoots can take place all over the world giving the book a truly global feel.

Equine and Livestock

This team underwrites equine, livestock and liability insurance with a diverse range of coverage for bloodstock and livestock worldwide.

The equine account offers coverage for the widest range of needs from individual horse owners up to the largest breeding and racing operations.

The livestock account, through its team in London and Geneva provides individually tailored insurance solutions for the largest livestock companies, having operations in several countries. Coverage includes cattle, zoos and aquaria, poultry, pigs and animals in transit.

The liability account provides cover for equine and livestock related liability risks for private instructors, private horse owners, riding establishments and other equine related liability risks as well as livestock related liability on farm risks.

Professional and Financial Risks

This team underwrites professional indemnity, management liability, emerging risks and financial institutions insurance. The professional indemnity account services most core and regulated professions including accountants, architects, engineers and financial advisors.

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.

The emerging risks account covers a variety of exposures including cyber (privacy, data breach and electronic risks); errors and omissions; general liability and intellectual property rights infringements (patents), across multiple industries and sectors.

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 and Financial Risks team writes business on a worldwide basis, limiting exposure in the United States.

Trade Credit and Political Risk

This team underwrites trade credit and political risk and contract frustration insurance, protecting sellers worldwide from the risk of buyer insolvency and other forms of counterparty risk.

The Trade credit account coverage includes prepayment cover, insolvency and default, captive reinsurance, syndicated co-insurance solutions and financial institutions. 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.

The political risk and contract frustration account has a broad range of coverage including insolvency or default by either a public or privately owned entity, licence cancellation, aircraft and vessel repossession, mortgage rights insurance and currency inconvertibility and exchange transfer.

Marine, Energy and Property

A worldwide portfolio including marine primary and excess coverage for liability, hull, war, terrorism, specie, ports and terminals, marine trades, subsea and cargo risks; upstream and midstream oil and gas risks; and a broad range of property open market facultative business.

Marine

Coverage includes primary and excess coverage for liability, hull, war, terrorism, specie and cargo risks worldwide, handling a comprehensive range of risks for multinational companies, national industries and private individuals.

The cargo account comprises a broad portfolio of transit and storage risk covering most industries on a global basis. 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. The terrorism account covers physical damage resulting from terrorism, strike, 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.

Energy

Offers coverage on a worldwide basis for all aspects of upstream and midstream oil and gas activities. Coverage includes business interruption or loss of production income, construction of energy related structures, control of well and physical damage to installations.

Property Open Market

A facultative business across all classes of property, worldwide. Close working relationships are formed with clients and brokers to facilitate innovative and flexible solutions to meet their insurance needs.

Reinsurance

This unit includes accident and health ("A&H") treaties, international casualty treaty and international and North American property treaty business.

A&H Treaty

This account offers catastrophe reinsurance covering personal accident, life, medical and workers compensation. In most countries, full terrorism coverage can also be provided, in addition to traditional exposures.

Casualty Treaty

The casualty treaty team 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.

Property Treaty

Property treaty reinsurance is provided on an excess of loss and proportional basis for per risk and catastrophe exposures. The property treaty account coves a wide diversity of exposures in the US and internationally and can tailor this to meet the specific needs of cedants.

Results and performance

The results for the year, as set out on pages 13 to 14, show a profit for the financial year of £37.6m (2015, profit of £13.2m).

The underwriting profit of £11.6m (2015, £6.2m profit) benefited from increased premium and modest improvements in both the loss and expense ratios. The result included a release from prior year reserves of £57.6m (2015, £32.4m release). This release is a result of 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 £18.2m (2015, £7.0m) generating a yield of 2.0% (2015, 1.0%) on the investment portfolio.

The profit for the financial year of £37.6m (2015, profit of £13.2m) reflects the profitable underwriting performance, solid investment return and foreign exchange gains on non-functional currencies.

Key Performance Indicators

Annual Accounting Data Income Statement	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m
Gross written premiums	386.1	369.2	419.0	429.0	485.8
Net written premiums	326.2	314.6	350.1	359.9	398.3
Retention rate	84.5%	85.2%	83.6%	83.9%	82.0%
Net earned premiums	**325.8**	**312.5**	**329.5**	**349.6**	**387.2**
Net underwriting result	**23.6**	**35.2**	**16.2**	**6.2**	**11.6**
Loss & LAE ratio	51.6%	49.8%	51.6%	53.5%	53.0%
Expense ratio	41.2%	38.9%	43.5%	44.8%	44.0%
Combined ratio	**92.8%**	**88.7%**	**95.1%**	**98.3%**	**97.0%**
Investment return	36.1	17.8	36.0	7.0	18.2
Investment yield	5.3%	2.6%	5.6%	1.0%	2.0%
Profit	**59.7**	**53.0**	**52.2**	**13.2**	**37.6**

Statement of Financial Position	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m
Financial investments and cash	674.5	643.4	687.5	658.8	980.9
Gross claims outstanding	797.0	719.9	737.5	737.9	1,103.3
Reinsurers' share of claims outstanding	161.4	120.8	114.1	103.8	154.1
Net claims outstanding	635.6	599.1	623.4	634.1	949.2

Three Year Accounting Data	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m
Syndicate Capacity	**340.0**	**340.0**	**500.0**	**500.0**	**500.0**
Underwriting result	38.1	21.7	53.5		
Investment result	32.6	13.3	25.7		
Result on closure	**70.7**	**35.0**	**79.2**		
Forecast return at 12 months	2.5%	10.0%	2.5%	1.5%	(3.5)%
Forecast return at 24 months	12.5%	5.0%	5.0%	2.5%	
Return on capacity at closure	**20.8%**	**10.3%**	**15.8%**		

- Underwriting profits of £92.8m over the period 2012 – 2016, generating an average combined ratio of 94.6%. The 2012 and 2013 years experienced natural catastrophe losses of £26.8m. The 2016 year was impacted by the Alberta wildfire natural catastophe and Hurricane Matthew with losses of £12.0m and £5.9m respectively. Excluding these natural catastrophe losses there was an underwriting profit of £137.5m, generating an average combined ratio of 91.9%.
- Profit of £215.7m over the period 2012 – 2016 through strong underwriting results and solid investment returns which in turn offset the natural catastrophe losses.

- Following the acceptance of Syndicate 1400's RITC from 1 January 2016, there has been an increase in the Statement of Financial Position for financial investments and cash, gross and net claims outstanding and reinsurers' share of claims outstanding.
- In addition to the RITC accepted there was an increase in financial investments during 2016 primarily due to the weakening of sterling against the US dollar, Euro and Canadian dollar during the year, strong underwriting cashflows, reduced expense payments and receipt of the 2013 loss payment for Syndicate 1400; partially offset by the distribution of the 2013 year of account profit for the Syndicate.
- In addition to the RITC accepted the increase in reinsurers' share of claims outstanding during 2016 was primarily due to the weakening of the sterling; partially offset by the settlement of claims and proactive collection of reinsurance recoveries.
- An average return on capacity of 17.5% for the 2002-2014 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 2017.

The Syndicate capacity for the 2016 year of account was £500m. This remains unchanged for the 2017 year of account.

Principal risks and uncertainties

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
- Liquidity Risk
- Group Risk
- Operational Risk

The risk and capital management note (note 3, page 23) provides a detailed explanation of the above 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 2016 and up to the date of this report were as follows:

Ralph C Snedden (Chairman)
Ian Marshall
Jeremy W Brazil
Andrew J Davies
Paul H Jenks
Nicholas J S Line
Hugh A J Maltby
Jeremy A Noble
John W J Spencer
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, Reserving Committee, Portfolio Direction Group, Finance Committee and the Remuneration Committee.

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, the Syndicate aims to use no more consumables than are necessary and recycle the maximum of those we do use. The Directors 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,

Jeremy Noble
Director
London

21 February 2017

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

21 February 2017

Independent Auditor's Report
to the Member of Syndicate 3000

We have audited the Financial Statements of Syndicate 3000 for the year ended 31 December 2016, as set out on pages 13 to 38. 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 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 the managing agent and the auditors

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's 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's 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year for 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:

- adequate accounting records have not been kept; or
- the Financial Statements 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
London
E14 5GL

21 February 2017

Income Statement: Technical Account

		2016		2015	
	Notes	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross written premiums	4	485,835		429,029	
Outward reinsurance premiums		(87,523)		(69,161)	
Net written premiums			**398,312**		**359,868**
Change in the gross provision for unearned premiums	18	(7,422)		(8,046)	
Change in the provision for unearned premiums, reinsurers' share	18	(3,659)		(2,193)	
Change in the provision for net unearned premiums			(11,081)		(10,239)
Net earned premiums			**387,231**		**349,629**
Allocated investment return transferred from the non-technical account	9		**18,173**		**6,971**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(264,295)		(204,536)	
Reinsurers' share		33,585		37,084	
Net paid claims			(230,710)		(167,452)
Change in the provision for claims					
Gross amount	18	19,130		(6,831)	
Reinsurers' share	18	6,191		(12,608)	
Net change in provision			25,321		(19,439)
Net claims incurred			**(205,389)**		**(186,891)**
Net operating expenses	6		**(170,225)**		**(156,507)**
Balance on the technical account			**29,790**		**13,202**

All operations relate to continuing business.

The notes on pages 19 to 38 form part of these Financial Statements.

Income Statement: Non-Technical Account

	Notes	2016 £'000	2015 £'000
Balance on the technical account		**29,790**	**13,202**
Investment income	7	31,674	20,196
Unrealised gains on investments		12,901	4,957
Investment expenses and charges	8	(4,330)	(2,821)
Unrealised losses on investments		(22,072)	(15,361)
Allocated investment return transferred to technical account	9	(18,173)	(6,971)
Profit on exchange		7,834	-
Profit for the financial year		**37,624**	**13,202**

All operations relate to continuing business.

The notes on pages 19 to 38 form part of these Financial Statements.

Statement of Comprehensive Income and Member's Balances

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Profit for the financial year		**37,624**	**13,202**
Net foreign exchange losses on translation of functional currency		(1,651)	(256)
Total comprehensive income for the year		35,973	12,946
Member's balance brought forward at 1 January		**(7,032)**	**50,743**
Total comprehensive income for the year		35,973	12,946
Payments of profit to the Member's personal reserve fund	17	(35,036)	(70,721)
Member's balance carried forward at 31 December		**(6,095)**	**(7,032)**

Statement of Financial Position: Assets
as at 31 December 2016

		2016		2015	
	Notes	£'000	£'000	£'000	£'000
Investments					
Financial investments	14		840,612		584,553
Reinsurers' share of technical provisions					
Provisions for unearned premiums	18	11,981		13,451	
Claims outstanding	18	154,099		103,785	
			166,080		**117,236**
Debtors					
Debtors arising out of direct insurance operations	15	65,730		45,566	
Debtors arising out of reinsurance operations	15	41,899		33,494	
Other debtors	16	2,868		2,517	
			110,497		**81,577**
Cash at bank			140,322		74,262
Prepayments and accrued income					
Accrued interest		6,418		4,236	
Deferred acquisition costs	18	44,328		32,923	
			50,746		**37,159**
Total Assets			**1,308,257**		**894,787**

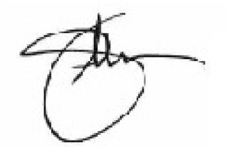
The notes on pages 19 to 38 form part of these annual Financial Statements.

Statement of Financial Position: Liabilities

as at 31 December 2016

		2016		2015	
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Capital and reserves					
Member's balance			(6,095)		(7,032)
Technical provisions					
Provisions for unearned premiums	18	189,614		153,104	
Claims outstanding	18	1,103,264		737,922	
			1,292,878		**891,026**
Creditors					
Creditors arising out of direct insurance operations	19	(5,428)		(2,829)	
Creditors arising out of reinsurance operations	19	16,857		4,812	
Other creditors	20	10,045		8,810	
			21,474		**10,793**
Total Liabilities			**1,308,257**		**894,787**

The Syndicate annual accounts on pages 1 to 38 were approved by the Board of Directors on 21 February 2017 and were signed on behalf of Markel Syndicate Management Limited by Jeremy Noble, Company Director.



Jeremy Noble
Director
London

21 February 2017

The notes on pages 19 to 38 form part of these annual Financial Statements.

Statement of Cash Flows

	2016		2015	
	£'000	**£'000**	**£'000**	**£'000**
Operating result	37,624		13,202	
Increase in gross technical provisions	401,852		7,650	
(Increase)/decrease in reinsurers' share of gross technical provisions	(48,844)		12,656	
(Increase)/decrease in debtors, prepayments and accrued income	(42,509)		573	
Increase in creditors, accruals and deferred income	10,682		8,209	
Investment return	(18,173)		(6,971)	
Foreign exchange movement on balance due to Member	(1,651)		(256)	
Net cash flows from operating activities		**338,981**		**35,063**
Acquisitions of other financial instruments	(535,505)		(204,844)	
Proceeds from sale of other financial instruments	401,258		255,743	
Investment income received	29,412		17,375	
Decrease/(increase) in overseas deposits	9,293		(6,098)	
Increase in deposits with credit institutions	(8,242)		(9,800)	
Changes to Market Value and currency	(138,704)		17,388	
Net cash flows from investing activities		**(242,488)**		**69,764**
Transfer to the Member in respect of underwriting participation	(35,036)		(70,721)	
Net cash flow from financing activities		**(35,036)**		**(70,721)**
Net cashflow increase in cash and cash equivalents		**61,457**		**34,106**
Cash and cash equivalents at 1 January		84,062		50,984
Effect of exchange rate changes on cash and cash equivalents		14,837		(1,028)
Cash and cash equivalents at end of year		160,356		84,062
Cash at bank		140,322		74,262
Short term deposits with credit institutions		20,034		9,800
Cash and cash equivalents at 31 December		**160,356**		**84,062**

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 amendments to FRS 102 issued in July 2015 have been applied.

The Financial Statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

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. 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.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amount that the Syndicate will receive from the reinsurer. Impairment losses are recognised in the Income Statement: Technical Account in the period in which the impairment loss is recognised.

vii) Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the Income Statement: Technical Account, net of the change in deferred acquisition costs.

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.

Financial assets at fair value through profit or loss are measured at fair value with changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit and loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income. Loans and receivables and non-derivative financial liabilities are measured at amoritised cost using the effective interest method.

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 in the Income Statement: Non-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 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.

There are independent reviews 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 is exposed to. 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 & Capital 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.

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 packs are discussed in detail at quarterly "Combined Ratio Meetings", which are attended by members of the Board, each unit 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 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.

- 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.

The table below sets out the Syndicate's sensitivity to interest rate and equity price movement.

	2016 £'000	2015 £'000
Interest rate risk		
Impact of 50 basis point increase on result	(13,911)	(8,544)
Impact of 50 basis point decrease on result	14,437	8,825
Impact of 50 basis point increase on net assets	(13,911)	(8,544)
Impact of 50 basis point decrease on net assets	14,437	8,825
Price risk		
Impact on result of 5% increase in Stock Market Prices	2,779	3,102
Impact on result of 5% decrease in Stock Market Prices	(2,779)	(3,102)
Impact on net assets of 5% increase in Stock Market Prices	2,779	3,102
Impact on net assets of 5% decrease in Stock Market Prices	(2,779)	(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.

2016 Currency Code	**GBP'000**	**USD'000**	**EUR'000**	**CAD'000**	**AUD'000**	**JPY'000**	**Other'000**	**Total'000**
Financial investments	146,295	344,454	111,612	172,076	43,141	-	23,034	840,612
Reinsurers' share of technical provisions	28,451	100,242	8,291	9,320	13,426	4,657	1,693	166,080
Insurance and reinsurance receivables	14,797	66,792	3,730	15,575	5,069	(620)	2,286	107,629
Cash at bank	7,228	22,818	64,432	(99)	4,471	18,271	23,201	140,322
Other assets	5,845	25,945	4,712	14,118	1,222	777	995	53,614
Total assets	**202,616**	**560,251**	**192,777**	**210,990**	**67,329**	**23,085**	**51,209**	**1,308,257**
Technical provisions	(244,371)	(557,604)	(199,781)	(173,943)	(58,548)	(19,923)	(38,708)	(1,292,878)
Insurance and reinsurance payables	10,729	(18,173)	(763)	(1,001)	(668)	(610)	(943)	(11,429)
Other creditors	(1,063)	(5,749)	(68)	(1,366)	-	(45)	(1,754)	(10,045)
Total liabilities	**(234,705)**	**(581,526)**	**(200,612)**	**(176,310)**	**(59,216)**	**(20,578)**	**(41,405)**	**(1,314,352)**

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 at bank	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)**

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 and brokers. These are monitored through reports to Risk & 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.

2016	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	42,509	34,248	2,012	-	-	55,582	134,351
Debt securities	292,505	291,036	31,705	5,734	-	-	620,980
Deposits with credit institutions	-	15,034	5,000	-	-	-	20,034
Overseas deposits as investments	28,467	7,009	5,663	3,007	9	21,092	65,247
Reinsurers' share of claim outstanding	-	3,776	139,454	856	-	10,013	154,099
Reinsurance debtors	-	-	980	-	-	3,008	3,988
Cash at bank	-	26,625	102,579	11,118	-	-	140,322
Total credit risk	**363,481**	**377,728**	**287,393**	**20,715**	**9**	**89,695**	**1,139,021**

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	-	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 7.1 years (2015 6.6 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 which 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.

g) Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Key controls that mitigate each risk on our risk register have been identified together with the appropriate control owner. Each quarter the control owner is required to confirm that the controls they are responsible for have been in place and operating effectively during the previous quarter. Controls relating to the production of financial information, which is governed by the Sarbanes Oxley Act, are tested annually by our Internal Audit team. Senior managers are also required to answer a quarterly questionnaire designed to identify whether there are any changes to processes, or any events which might impact Markel's Financial Statements. Each quarter's confirmation process is summarised by Risk Management in a memo to the President, the Chief Operating Officer, the Finance Director and the Director of Underwriting.

Opening new offices, particularly those overseas, presents new business opportunities but also exposes us to increased risk. We created a team specifically to oversee our "National Markets" operations in order to focus specifically on the management of this type of business. The devotion of specific management resource to this is a key part of our mitigation of the risks from remote offices.

An Incident Log (including Operational Losses and Near Misses) has been compiled. This records and quantifies losses and "near misses" arising from or exacerbated by failure of people, processes and systems as well as those caused by external (non-insurance) events and assists in identifying Risk Events, Key Risk Indicators and also controls which would mitigate a recurrence of such losses.
Reports on a number of areas of Operational Risk form part of the quarterly Key Risk Indicators that are submitted to Risk & Capital Committee and summarised to the Board.

Capital management

The Society of Lloyd's ("Lloyd's") is a regulated undertaking and subject to supervision by the 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:

2016 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	11,424	11,395	(6,204)	(4,025)	(1,296)	(130)
Marine, aviation and transport	100,840	102,189	(69,780)	(35,532)	(5,298)	(8,421)
Fire and other damage to property	93,837	89,861	(53,249)	(33,065)	(12,140)	(8,593)
Third party liability	107,450	102,423	(46,302)	(37,862)	(2,339)	15,920
Miscellaneous	14,265	16,571	(13,121)	(5,026)	(575)	(2,151)
Total direct	**327,816**	**322,439**	**(188,656)**	**(115,510)**	**(21,648)**	**(3,375)**
Reinsurance	158,019	155,974	(56,509)	(55,681)	(28,792)	14,992
Total	**485,835**	**478,413**	**(245,165)**	**(171,191)**	**(50,440)**	**11,617**

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**

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

b) Analysis of premium by destination:

	Gross Written Premiums	
	2016 £'000	**2015 £'000**
UK	77,706	69,045
Europe (excluding UK)	71,144	62,285
USA	144,399	122,219
Canada	83,713	69,371
Rest of the world	108,873	106,109
Total	**485,835**	**429,029**

5 Claims outstanding

Net reserves for claims outstanding at 31 December 2015 were reduced by £57.6m in calendar year 2016. Net reserves for claims outstanding at 31 December 2014 were reduced by £32.4m in calendar year 2015.

The Syndicate has material exposure to motor casualty claims through motor treaty policies written on the 2014 and prior years of account. The calculation of these outstanding claims is informed by the discount rate used in determining lump sum awards in personal injury cases referenced in the Ogden tables, which is currently at 2.5%. This rate is currently under review by the Lord Chancellor and an updated rate is expected to be announced as early as February 2017, which increases the uncertainty of the Syndicate's total reserves, but does not increase that uncertainty in an adverse direction significantly beyond the normal range for insurance liabilities at this stage of development.

In lieu of the announcement by the Lord Chancellor the Directors' best estimate view of the discount rate is 1.0%. This 1.0% discount rate is based on various economic and political factors, including but not restricted to expected long-term real investment return as well as the social and economic drivers associated with the acceptance of lump sums over periodic payment orders "PPOs". This view is reaffirmed by many participants in this market taking a similar view. A range of possible outcomes based upon 50bps movements in the discount rate have been projected; the held funds at the Syndicate can withstand deterioration from a change in discount rate to at least 0.0%, which is projected to have an adverse impact of £26.7m on the current best estimate of a 1.0% discount rate. Should the revised discount rate decrease to 2.0%, the best estimate will include margin of £9.8m. The sensitivity provided in this disclosure is before considering other factors that could reduce the amount of the impact, in the event of a more significant reduction in rate, including the potential for less negotiation by claimants at the point of settlement reducing the average cost per claim before discounting and any redundancy in our existing actuarial reserves.

6 Net operating expenses

	2016 £'000	**2015 £'000**
Commission costs	107,068	89,238
Other acquisition costs	7,618	5,485
Change in deferred acquisition costs	(4,617)	(1,825)
Administrative expenses	61,122	66,172
Profit on exchange	-	(1,729)
Gross operating expenses	171,191	157,341
Reinsurance commissions and profit participations	(966)	(834)
Net operating expenses	**170,225**	**156,507**

Commission paid during the year in respect of direct insurance business amounted to £85.4m (2015, £71.1m). Member's standard personal expenses are included within administrative expenses.

Profit on exchange has been shown in the Non_Technical account for the 2016 year. The comparative, which is not considered material, has been shown in the Income Statement: Technical Account as part of net operating expenses.

7 Investment income

	2016 £'000	2015 £'000
Income from investments	20,959	16,706
Gains on the realisation of investments	10,715	3,490
Total	**31,674**	**20,196**

8 Investment expenses and charges

	2016 £'000	2015 £'000
Investment management expenses, including interest	2,067	1,673
Losses on the realisation of investments	2,263	1,148
Total	**4,330**	**2,821**

9 Investment return

	2016 £'000	2015 £'000
Investment income	31,674	20,196
Net unrealised losses on investments	(9,171)	(10,404)
Investment expenses and charges	(4,330)	(2,821)
Actual return on investments	**18,173**	**6,971**

10 Rates of exchange

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

	Year-End Rate 2016	Average Rate 2016	Year-End Rate 2015	Average Rate 2015
US dollar	1.23	1.36	1.48	1.53
Canadian dollar	1.66	1.81	2.06	1.96
Euro	1.16	1.24	1.36	1.38
Australian dollar	1.70	1.83	2.03	2.04

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

	2016 £'000	2015 £'000
Audit of these Financial Statements	296	179
Audit-related assurance services	151	70
Total Auditor's remuneration	**447**	**249**

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:

	2016 £'000	2015 £'000
Emoluments	**388**	**498**

14 Financial Investments

	Market Value		Cost	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Shares and other variable yield securities and units in unit trusts	55,582	62,042	35,654	39,909
Holdings in collective investment schemes	78,769	87,805	78,769	87,805
Debt securities and other fixed income securities	620,980	363,214	607,000	347,992
Overseas deposits	65,247	61,692	65,247	61,692
Deposits with credit institutions	20,034	9,800	20,034	9,800
Total	**840,612**	**584,553**	**806,704**	**547,198**

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).

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other fixed income securities and units in unit trusts	55,582	-	-	55,582
Holdings in collective investment schemes	78,769	-	-	78,769
Debt securities and other fixed income securities	24,086	596,894	-	620,980
Overseas Deposits	-	65,247	-	65,247
Deposits with credit institutions	20,034	-	-	20,034
Total	**178,471**	**662,141**	**-**	**840,612**

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**

15 Debtors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Amounts owed by intermediaries within one year	65,591	45,458	41,899	33,457
Amounts owed by intermediaries after more than one year	139	108	-	37
Total	**65,730**	**45,566**	**41,899**	**33,494**

16 Other debtors

	2016 £'000	2015 £'000
Amounts due from group undertakings	69	407
Other debtors	2,799	2,110
Amounts due within one year	**2,868**	**2,517**

17 Year of Account development

Year of Account	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Profit to Member at 36 months £'000
2009 & prior	35,279	48,603						83,882
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	73,243	79,211
2015						(48,036)	32,043	
2016							(69,313)	
Calendar Year Result	**28,139**	**(13,117)**	**62,230**	**48,437**	**55,456**	**12,946**	**35,973**	

A distribution of £79.2m to the corporate member has been proposed in relation to the 2014 year of account (2015: £35.0m in relation to the 2013 year of account).

18 Technical provisions

	2016			2015		
Provision for claims outstanding	**Gross £'000**	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
At 1 January	737,922	103,785	634,137	737,531	114,142	623,389
RITC accepted from Syndicate 1400	248,822	25,153	223,669	-	-	-
Movement in provision	(19,130)	6,191	(25,321)	6,831	(12,608)	19,439
Movement due to foreign exchange	135,650	18,970	116,680	(6,440)	2,251	(8,691)
Total movement in reserves	365,342	50,314	315,028	391	(10,357)	10,748
At 31 December	**1,103,264**	**154,099**	**949,165**	**737,922**	**103,785**	**634,137**

	2016			2015		
Provision for unearned premiums	**Gross £'000**	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
At 1 January	153,104	13,451	139,653	145,845	15,750	130,095
Movement in provision	7,422	(3,659)	11,081	8,046	(2,193)	10,239
Movement due to foreign exchange	29,088	2,189	26,899	(787)	(106)	(681)
Total movement in reserves	36,510	(1,470)	37,980	7,259	(2,299)	9,558
At 31 December	**189,614**	**11,981**	**177,633**	**153,104**	**13,451**	**139,653**

Deferred acquisition costs	**2016 £'000**	**2015 £'000**
At 1 January	32,923	31,584
Change in deferred acquisition costs	4,617	1,825
Movement due to foreign exchange	6,788	(486)
At 31 December	**44,328**	**32,923**

The following gross and net loss tables have been restated to reflect the historical information for Syndicate 1400 following the RITC accepted as at 1 January 2016. These tables have also been revalued to reflect the current year end rates of exchange.

Gross outstanding claims provision as at 31 December 2016

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	2016 £'000	Total £'000
Estimate of cumulative claims incurred								
At end of underwriting year		224,423	209,613	148,632	109,549	103,960	142,410	
One year later		372,231	337,483	203,006	230,985	252,441		
Two years later		474,299	379,081	343,050	284,441			
Three years later		506,324	445,510	315,360				
Four years later		584,362	443,952					
Five years later		587,479						
Cumulative paid claims								
At end of underwriting year		(21,984)	(19,855)	(14,386)	(8,921)	(11,644)	(22,846)	
One year later		(117,174)	(112,066)	(93,250)	(69,541)	(77,356)		
Two years later		(259,919)	(205,130)	(189,334)	(117,427)			
Three years later		(385,346)	(301,822)	(205,604)				
Four years later		(498,669)	(317,331)					
Five years later		(506,472)						
Gross outstanding claims provision at 31 December 2016	**324,217**	**81,007**	**126,621**	**109,756**	**167,014**	**175,085**	**119,564**	**1,103,264**

Net outstanding claims provision as at 31 December 2016

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	2016 £'000	Total £'000
Estimate of cumulative claims incurred								
At end of underwriting year		175,098	165,526	131,350	103,642	95,034	133,760	
One year later		290,958	281,955	250,040	207,984	232,787		
Two years later		361,846	326,009	299,676	233,431			
Three years later		378,761	347,590	272,787				
Four years later		418,196	372,132					
Five years later		412,633						
Cumulative paid claims								
At end of underwriting year		(17,988)	(18,441)	(12,377)	(8,757)	(11,253)	(22,640)	
One year later		(95,389)	(98,578)	(76,016)	(66,167)	(73,889)		
Two years later		(194,324)	(167,234)	(151,511)	(108,717)			
Three years later		(270,168)	(242,388)	(167,282)				
Four years later		(332,943)	(250,267)					
Five years later		(339,283)						
Net outstanding claims provision at 31 December 2016	**253,713**	**73,350**	**121,865**	**105,505**	**124,714**	**158,898**	**111,120**	**949,165**

19 Creditors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Amounts owed to intermediaries within one year	(5,428)	(2,830)	16,857	4,812
Amounts owed to intermediaries after more than one year	-	1	-	-
Total	**(5,428)**	**(2,829)**	**16,857**	**4,812**

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

	2016 £'000	**2015 £'000**
Amounts due to other group undertakings	**10,045**	**8,810**

21 Discounted claims

The claims relating to PPOs have been discounted as follows:

	Discount rates		Mean term of liabilities	
Class of business	**2016**	**2015**	**2016**	**2015**
Motor	3%	3%	24.5 years	23.5 years

The period that will elapse before claims are settled is determined using adjusted mortality tables.

The claims provisions before discounting are as follows:

	2016 £'000	**2015 £'000**
Total claims provisions before discounting	35,879	9,243
Reinsurers' share of total claims provisions before discounting	-	-
Net claims provisions before discounting	**35,879**	**9,243**

22 Related parties

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

	2016 £'000	2015 £'000
Expenses recharged	(74,924)	(77,832)
Expenses settled in the year	75,862	61,582
Syndicate 1400 RITC	(709)	-
Year end balance due from the Syndicate	(6,335)	(6,564)

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:

	2016 £'000	2015 £'000
United States and Canadian Income Tax paid by the Syndicate in the year	2,619	4,432
United States and Canadian Income Tax reimbursed by MCAP in the year	(3,012)	(4,901)
Year end balance due to the Syndicate	-	393

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

	Management Fees Charged 2016 £'000	Management Fees Settled 2016 £'000	YE balance due (from)/to the Syndicate 2016 £'000	Management Fees Charged 2015 £'000	Management Fees Settled 2015 £'000	YE balance due (from)/to the Syndicate 2015 £'000
Markel International Singapore PTE Limited	(331)	302	(331)	(302)	522	(302)
Markel International Hong Kong Limited	(93)	-	(231)	(35)	-	(138)
Markel Europe Limited	-	-	(75)	-	-	(75)
Markel International Labuan Limited	(35)	135	(35)	(54)	-	(135)
Markel International Dubai Limited	-	50	79	-	29	29

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:

	2016 £'000	2015 £'000
Premiums assumed	(968)	(276)
Incurred claims movement	84	-
Syndicate 1400 RITC	(120)	-
Year end balance due (from)/to the Syndicate	(46)	144

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:

	2016 £'000	**2015 £'000**
Premiums ceded to MIICL	(19,118)	(7,843)
Incurred claims movement	5,496	-
Year end balance due from the Syndicate	(924)	-

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

	2016 £'000	**2015 £'000**
Fees paid	2,067	1,673
Syndicate 1400 RITC	(65)	-
Year end balance due from the Syndicate	(496)	(386)