

Accounts disclaimer

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Markel Syndicate 3000

Annual Report and Financial Statements
for the year ended 31 December 2018



Syndicate 3000
Annual Report and Financial Statements
for the year ended 31 December 2018

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Directors and Administration

Managing Agent

Markel Syndicate Management Limited

Board of Directors

Ralph C Snedden (Chair)

Ian Marshall

Andrew J Davies

Paul H Jenks

Nicholas J S Line

Hugh A J Maltby

Hannah E Purves

John W J Spencer

William D Stovin

Anne Whitaker

Simon Wilson

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

Paul H Jenks

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 2018.

Review of the business

Markel Syndicate 3000 ("the Syndicate") is the Lloyd's platform for Markel International Holdings 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, Singapore, Labuan, Hong Kong, Switzerland, Dubai, Brazil and India.

Business profile and units

The Syndicate operates three London based underwriting units, namely Specialty and Financial Lines, Marine and Energy and Reinsurance. In Canada, Markel Canada Limited ("Markel Canada"), 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, trade credit, marine, excess and umbrella, environmental liability, cyber risks and property coverages, and it also writes professional indemnity and directors' and officers' 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, Japan and India.

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, political risk and surety.

Personal Accident, Contingency and Entertainment

The personal accident account focuses upon London market high risk, sports, schemes, affinity, group personal accident and business travel, offering bespoke insurance solutions.

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 and livestock 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 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.

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 client's requirements.

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

Trade Credit, Political Risk and Surety

This team underwrites trade credit, political risk and contract frustration and surety 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

The surety account coverage includes both contract and commercial bonds. The surety team can provide clients with both bespoke and traditional surety solutions.

Marine and Energy

A worldwide portfolio including marine primary and excess coverage for liability, hull, war, terrorism, specie, ports and terminals, marine trades and cargo risks; upstream and midstream oil and gas risks.

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 as well as traditional marine liability risks. The terrorism account covers physical damage resulting from terrorism, 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.

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 covers 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 14 to 15, show a loss for the financial year of £15.0m (2017, loss of £80.5m).

The underwriting result, a loss of £28.9m (2017, £102.7m loss) has been impacted by £22.8m of natural catastrophe losses arising during the third and fourth quarters of 2018; (California wildfires; hurricane Michael; hurricane Florence). While none of these catastrophe losses individually or in total exceeded the Syndicate's risk appetite for market events of this size, they contributed 4.9% to the combined ratio.

The adverse impacts to the underwriting result were partially offset by a release from prior year reserves of £30.1m (2017, £59.2m release). This release is a result of more favourable claims development than originally anticipated and dealing with claims in an expeditious manner. The Syndicate also benefited from a £2.7m bad debt release in the year following a reduction in recoveries relating to the World Trade Centre loss.

The investment return was £8.3m (2017, £23.6m) generating a yield of 0.9% (2017, 2.5%) on the investment portfolio.

The loss for the financial year of £15.0m (2017, loss of £80.5m) reflects the natural catastrophe losses, partially offset by the investment return.

Key Performance Indicators

Annual Accounting Data Income Statement	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m
Gross written premiums	419.0	429.0	485.8	564.6	515.1
Net written premiums	350.1	359.9	398.3	488.3	446.4
Retention rate	83.6%	83.9%	82.0%	86.5%	86.7%
Net earned premiums	329.5	349.6	387.2	473.3	470.1
Net underwriting result	16.2	6.2	11.6	(102.7)	(28.9)
Loss & LAE ratio	51.6%	53.5%	53.0%	80.5%	65.5%
Expense ratio	43.5%	44.8%	44.0%	41.2%	40.7%
Combined ratio	95.1%	98.3%	97.0%	121.7%	106.2%
Investment return	36.0	7.0	18.2	23.6	8.3
Investment yield	5.6%	1.0%	2.0%	2.5%	0.9%
Profit/(loss)	52.2	13.2	37.6	(80.5)	(15.0)
Statement of Financial Position	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m
Financial investments and cash	687.5	658.8	980.9	888.2	897.7
Gross claims outstanding	737.5	737.9	1,103.3	1,283.6	1,231.8
Reinsurers' share of claims outstanding	114.1	103.8	154.1	255.6	210.9
Net claims outstanding	623.4	634.1	949.2	1,028.0	1,020.9
Three Year Accounting Data	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m
Syndicate Capacity	500.0	500.0	500.0	500.0	500.0
Underwriting result	53.5	4.7	(16.8)		
Investment result	25.7	16.9	10.1		
Result on closure	79.2	21.6	(6.7)		
Forecast return at 12 months	2.5%	1.5%	(3.5)%	(14.0)%	(9.0)%
Forecast return at 24 months	5.0%	2.5%	(5.0)%	(15.0)%	
Return on capacity at closure	15.8%	4.3%	(1.3)%		

- Underwriting losses of £97.6m over the period 2014 – 2018, generating an average combined ratio of 104.9%. The 2016 year was impacted by natural catastrophe losses on the Alberta wildfires and hurricane Matthew with losses of £17.9m. The 2017 year was impacted by several natural catastrophes with losses of £74.6m; hurricane Harvey; hurricane Irma; hurricane Maria; Mexico earthquake; Northern and Southern California wildfires. The 2018 year was impacted by the previously described natural catastrophe losses of £22.8m. Excluding these natural catastrophe losses there was an underwriting profit over the period 2013 - 2017 of £8.7m, generating an average combined ratio of 99.6%.
- Profit of £7.5m over the period 2014 – 2018 through solid investment returns which in turn offset the natural catastrophe losses.

- There was an increase in financial investments during 2018 primarily due to a £39.1m (\$50.0m) loan from Markel Corporation and the weakening of sterling against the US dollar; partially offset the distribution of the 2015 year of account profit for the Syndicate.
- The decrease in reinsurers' share of claims outstanding during 2018 was primarily due the settlement of claims and proactive collection of reinsurance recoveries; partially offset by the 2018 natural catastrophe losses.
- An average return on capacity of 14.5% for the 2002-2016 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 asset base, inclusive of the Funds at Lloyd's supporting the Syndicate's underwriting, 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 2019.

The Syndicate capacity for the 2018 year of account was £500m. This will reduce to £450m for the 2019 year of account driven by the Syndicate's decision to cease writing its property open market book.

In response to the operational and legal challenges posed by Brexit the Syndicate will underwrite risks through the newly established Lloyd's Insurance Company S.A ("Lloyd's Brussels"). Lloyd's Brussels has been set up to ensure Lloyd's partners can continue to access the market's underwriting expertise and financial security across Europe. Lloyd's Brussels is authorised and regulated by the National Bank of Belgium, and writes all non-life risks from the European Economic Area ("EEA"). Furthermore, Lloyd's have announced that underwriters would continue to pay all valid claims regardless of the result of the Brexit negotiations, and that it will be moving all legacy EEA business to Lloyd's Brussels before the end of 2020, via a Part VII transfer.

The principal economic risks associated with Brexit are captured within the Market Risk and Credit Risk sections disclosed in note 3 to these Financial Statements, including detail of sensitivity analysis and currency exposures.

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) provides a detailed explanation of the above risk categories.

There are currently 25 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 Chief Risk Officer's quarterly report to the Board.

An Own Risk and Solvency Assessment report is produced which is 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. The Syndicate is in compliance with Solvency II.

Directors

The Directors of the Managing Agent who served during 2018 and up to the date of this report were as follows:

Ralph C Snedden	(Chair)
Ian Marshall	
Andrew J Davies	
Paul H Jenks	
Nicholas J S Line	
Hugh A J Maltby	
Jeremy A Noble	(Resigned 30/06/2018)
Hannah E Purves	
John W J Spencer	
William D Stovin	
Anne Whitaker	
Simon Wilson	

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

Markel Syndicate Management Limited ("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", the Syndicate has a commitment to its communities, which we recognise includes environmental responsibilities. Our goal is to minimise our environmental impact whilst still adhering to our other principles as expressed in the Markel Style and our company profile.

Through the development of best practices in our business, 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

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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 Davies

Director
London

26 February 2019

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 Davies

Director
London

26 February 2019

Independent Auditor's Report to the Member of Syndicate 3000

Opinion

We have audited the Financial Statements of Syndicate 3000 for the year ended 31 December 2018 which comprise the Income Statement: Technical Account, Income Statement: Non-Technical Account, Statement of Comprehensive Income and Member's Balances, Statement of Financial Position: Assets, Statement of Financial Position: Liabilities, Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors of the Managing Agent have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Syndicate or to cease its operations, and as they have concluded that the Syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Financial Statements. In our evaluation of the Directors of the Managing Agent's conclusions, we considered the inherent risks to the Syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the Syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Syndicate will continue in operation.

Report of the Directors of the Managing Agent

The Directors are responsible for the Report of the Directors of the Managing Agent. Our opinion on the Financial Statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the Directors of the Managing Agent and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Responsibilities of the Directors of the Managing Agent

As explained more fully in their statement set out on page 3, the Directors of the Managing Agent are responsible for: the preparation of the Financial Statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Syndicate's member, 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 company and the Syndicate's member, as a body, for our

audit work, for this report, or for the opinions we have formed.

**Karen Orr (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
15 Canada Square
London
E14 5GL

26 February 2019

Income Statement: Technical Account for the year ended 31 December 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross written premiums	4	515,092		564,550	
Outward reinsurance premiums		<u>(68,700)</u>		<u>(76,231)</u>	
Net written premiums			446,392		488,319
Change in the gross provision for unearned premiums	17	21,220		(13,020)	
Change in the provision for unearned premiums, reinsurers' share	17	<u>2,487</u>		<u>(1,959)</u>	
Change in the provision for net unearned premiums			<u>23,707</u>		<u>(14,979)</u>
Net earned premiums			470,099		473,340
Allocated investment return transferred from the non-technical account	9		8,286		23,592
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(393,683)		(303,159)	
Reinsurers' share		<u>67,128</u>		<u>38,284</u>	
Net paid claims			(326,555)		(264,875)
Change in the provision for claims					
Gross amount	17	71,090		(230,706)	
Reinsurers' share	17	<u>(52,243)</u>		<u>114,675</u>	
Net change in provision			<u>18,847</u>		<u>(116,031)</u>
Net claims incurred			(307,708)		(380,906)
Net operating expenses	6		(191,324)		(195,135)
Balance on the technical account			(20,647)	(79,109)	

All operations relate to continuing business.

The notes on pages 20 to 41 form part of these Financial Statements.

Income Statement: Non-Technical Account for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Balance on the technical account		(20,647)	(79,109)
Investment income	7	22,059	45,353
Unrealised gains on investments		55	10,828
Investment expenses and charges	8	(4,998)	(5,624)
Unrealised losses on investments		(8,830)	(26,965)
Allocated investment return transferred to technical account	9	(8,286)	(23,592)
Profit/(loss) on exchange		5,636	(1,372)
Loss for the financial year		(15,011)	(80,481)

All operations relate to continuing business.

The notes on pages 20 to 41 form part of these Financial Statements.

Statement of Comprehensive Income and Member's Balances

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Loss for the financial year		(15,011)	(80,481)
Net foreign exchange (losses)/gains on translation of functional currency		(5,045)	7,783
Total comprehensive loss for the year		(20,056)	(72,698)
Member's balance brought forward at 1 January		(158,004)	(6,095)
Total comprehensive loss for the year		(20,056)	(72,698)
Payments of profit to the Member's personal reserve fund	16	(21,626)	(79,211)
Member's balance carried forward at 31 December		(199,686)	(158,004)

The notes on pages 20 to 41 form part of these annual Financial Statements.

Statement of Financial Position: Assets

as at 31 December 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Investments					
Financial investments	13		771,308		740,601
Reinsurers' share of technical provisions					
Provisions for unearned premiums	17	12,726		9,397	
Claims outstanding	17	<u>210,851</u>		<u>255,600</u>	
			223,577		264,997
Debtors					
Debtors arising out of direct insurance operations	14	89,043		60,063	
Debtors arising out of reinsurance operations	14	20,218		53,428	
Other debtors	15	<u>30,367</u>		<u>5,985</u>	
			139,628		119,476
Cash at bank			126,348		147,645
Prepayments and accrued income					
Accrued interest		5,129		5,139	
Deferred acquisition costs	17	<u>46,087</u>		<u>46,818</u>	
			51,216		51,957
Total Assets			1,312,077		1,324,676

The notes on pages 20 to 41 form part of these annual Financial Statements.

Statement of Financial Position: Liabilities

as at 31 December 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Capital and reserves					
Member's balance			(199,686)		(158,004)
Technical provisions					
Provisions for unearned premiums	17	176,680		191,629	
Claims outstanding	17	1,231,828		1,283,579	
			1,408,508		1,475,208
Creditors					
Creditors arising out of direct insurance operations	18	(12,780)		(13,166)	
Creditors arising out of reinsurance operations	18	5,855		10,428	
Other creditors	19	110,180		10,210	
			103,255		7,472
Total Liabilities			1,312,077		1,324,676

The notes on pages 20 to 41 form part of these annual Financial Statements.

The Syndicate annual accounts on pages 1 to 41 were approved by the Board of Directors on 26 February 2019 and were signed on behalf of Markel Syndicate Management Limited by Andrew Davies, Company Director.

Andrew Davies

Director
London

26 February 2019

Statement of Cash Flows

for the year ended 31 December 2018

	2018		2017	
	£'000	£'000	£'000	£'000
Operating result	(15,011)		(80,481)	
(Decrease)/increase in gross technical provisions	(66,700)		182,330	
Decrease/(increase) in reinsurers' share of gross technical provisions	41,420		(98,917)	
Increase in debtors, prepayments and accrued income	(19,410)		(10,190)	
Increase/(decrease) in creditors, accruals and deferred income	95,785		(14,004)	
Investment return	(8,286)		(23,592)	
Foreign exchange movement on balance due to Member	(5,636)		7,783	
Net cash flows from operating activities		22,162		(37,071)
Acquisitions of other financial instruments	(435,374)		(279,210)	
Proceeds from sale of other financial instruments	387,901		355,913	
Investment income received	19,080		43,320	
Increase in overseas deposits	(3,375)		(9,214)	
Movement in other deposits	(15,708)		32,311	
Net cash flows from investing activities		(47,476)		143,120
Transfer to the Member in respect of underwriting participation	(21,626)		(79,211)	
Net cash flow from financing activities		(21,626)		(79,211)
Net cash flow increase in cash and cash equivalents		(46,940)		26,838
Cash and cash equivalents at 1 January		185,692		160,356
Effect of exchange rate changes on cash and cash equivalents		3,343		(1,502)
Cash and cash equivalents at end of year		142,095		185,692
Cash at bank		126,348		147,645
Short term deposits with credit institutions		15,747		38,047
Cash and cash equivalents at 31 December		142,095		185,692

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.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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.

The provisions for losses and loss adjustment expenses, and related reinsurance recoveries, are discounted where there is a long period from incident to claims settlement and where there exists a suitable claims payment pattern from which to calculate the discount. The discount rate used is based upon an investment return expected to be earned by financial assets which are appropriate in value and duration to match the provisions for insurance contract liabilities being discounted during the period expected before the final settlement of such claims.

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 amortised 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 month of the transactions.

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 risks are recorded on a risk register and managed through the risk management framework. 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, group risk and operational 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 prior, written approval, 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.

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.

Concentration risk in reference to location of underwriting and class of business is detailed in note 4.

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. There are rules 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 relevant Actuaries.

c) Market risk

Market risk is the risk of loss resulting from adverse financial market movements including interest rates or exchange rates.

Risk appetites are agreed annually by the Board to limit investment concentration. Adherence to these is monitored at the Risk & 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 which is reviewed quarterly by Markel's investment committee. A quarterly investment report is produced for MSM's Board.

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.

	2018	2017
	£'000	£'000
Interest rate risk		
Impact of 50 basis point increase on result	(14,109)	(13,143)
Impact of 50 basis point decrease on result	14,586	13,624
Impact of 50 basis point increase on net assets	(14,109)	(13,143)
Impact of 50 basis point decrease on net assets	14,586	13,624
Price risk		
Impact on result of 5% increase in Stock Market Prices	1,532	1,391
Impact on result of 5% decrease in Stock Market Prices	(1,532)	(1,391)
Impact on net assets of 5% increase in Stock Market Prices	1,532	1,391
Impact on net assets of 5% decrease in Stock Market Prices	(1,532)	(1,391)

- 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 (2017, none).

The table below, as reported in converted sterling, details the matching of material currencies in the Statement of Financial Position.

2018									
Currency Code	GBP'000	USD'000	EUR'000	CAD'000	AUD'000	JPY'000	Other'000	Total'000	
Financial investments	101,861	291,440	110,698	204,237	40,844	-	22,228	771,308	
Reinsurers' share of technical provisions	24,177	157,626	5,707	27,759	6,830	219	1,259	223,577	
Insurance and reinsurance receivables	17,371	75,836	3,157	6,807	4,511	(1,097)	2,676	109,261	
Cash at bank	29,637	31,149	31,309	(13)	3,075	11,447	19,744	126,348	
Other assets	5,852	53,590	6,247	12,408	1,617	806	1,063	81,583	
Total assets	178,898	609,641	157,118	251,198	56,877	11,375	46,970	1,312,077	
Technical provisions	(267,214)	(620,981)	(190,585)	(222,992)	(56,321)	(13,308)	(37,107)	(1,408,508)	
Insurance and reinsurance payables	6,626	143	(783)	1,417	120	(251)	(347)	6,925	
Other creditors	(14,811)	(92,254)	(375)	(722)	(4)	110	(2,124)	(110,180)	
Total liabilities	(275,399)	(713,092)	(191,743)	(222,297)	(56,205)	(13,449)	(39,578)	(1,511,763)	

2017									
Currency Code	GBP'000	USD'000	EUR'000	CAD'000	AUD'000	JPY'000	Other'000	Total'000	
Financial investments	126,514	253,490	107,197	185,148	47,181	-	21,071	740,601	
Reinsurers' share of technical provisions	22,679	211,730	2,165	11,021	12,721	3,451	1,230	264,997	
Insurance and reinsurance receivables	12,637	77,166	4,728	11,457	4,522	(139)	3,120	113,491	
Cash at bank	38,710	35,019	43,438	(44)	4,932	9,223	16,367	147,645	
Other assets	8,762	28,431	4,527	13,224	1,434	749	815	57,942	
Total assets	209,302	605,836	162,055	220,806	70,790	13,284	42,603	1,324,676	
Technical provisions	(283,267)	(687,801)	(191,493)	(193,352)	(78,123)	(18,369)	(22,803)	(1,475,208)	
Insurance and reinsurance payables	7,744	(3,098)	124	(532)	(474)	(576)	(450)	2,738	
Other creditors	234	(9,144)	-	(1,232)	(1)	-	(67)	(10,210)	
Total liabilities	(275,289)	(700,043)	(191,369)	(195,116)	(78,598)	(18,945)	(23,320)	(1,482,680)	

d) Credit risk

Credit risk is the risk of loss arising from the inability of a counterparty to fulfil its payment obligations. 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 31 December 2018, 100% (2017, 100%) of the Syndicate's fixed maturity portfolio is rated 'A' or better.

The Syndicate does not hold any financial investments that are past due or impaired as at 31 December 2018.

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.

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

2018	AAA £'000	AA £'000	A £'000	BBB £'000	BBB or less £'000	Not rated £'000	Total £'000
Shares and other variable yield securities, unit trusts and collective investment schemes	21,102	-	23,352	2,252	-	30,643	77,349
Debt securities	272,255	320,927	9,963	-	-	-	603,145
Deposits with credit institutions	-	-	15,747	-	-	-	15,747
Overseas deposits as investments	37,769	6,542	6,725	4,475	1,072	18,484	75,067
Reinsurers' share of claim outstanding	1,323	43,315	108,044	-	-	58,169	210,851
Reinsurance debtors	-	4,994	8,583	-	-	4,304	17,881
Cash at bank	-	-	33,729	92,619	-	-	126,348
Total credit risk	332,449	375,778	206,143	99,346	1,072	111,600	1,126,388

2017	AAA £'000	AA £'000	A £'000	BBB £'000	BBB or less £'000	Not rated £'000	Total £'000
Shares and other variable yield securities, unit trusts and collective investment schemes	4,499	11,190	42,914	-	-	27,819	86,422
Debt securities	270,150	262,592	12,326	-	-	-	545,068
Deposits with credit institutions	-	-	28,040	10,007	-	-	38,047
Overseas deposits as investments	33,394	5,437	9,019	4,491	1,735	16,988	71,064
Reinsurers' share of claim outstanding	-	5,404	227,358	1,009	-	21,829	255,600
Reinsurance debtors	-	46	1,916	-	-	3,400	5,362
Cash at bank	-	-	120,981	26,664	-	-	147,645
Total credit risk	308,043	284,669	442,554	42,171	1,735	70,036	1,149,208

e) Liquidity risk

Liquidity risk is the risk that sufficient liquid financial resources are not maintained to meet liabilities as they fall due. 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 5.0 years (2017, 5.2 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 is 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 the 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 Director of Underwriting and the Finance Director.

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 Funds at Lloyd's ("FAL"). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these Financial Statements by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

4 Segmental analysis

a) Analysis of business by class:

2018 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	16,056	16,082	(7,987)	(6,077)	(750)	1,268
Marine, aviation and transport	117,917	124,588	(79,716)	(44,631)	(14,402)	(14,161)
Fire and other damage to property	83,706	92,458	(45,272)	(31,682)	(25,417)	(9,913)
Third party liability	137,213	133,223	(84,626)	(51,935)	3,702	364
Miscellaneous	18,295	17,945	(16,359)	(6,924)	183	(5,155)
Total direct	373,187	384,296	(233,960)	(141,249)	(36,684)	(27,597)
Reinsurance	141,905	152,016	(88,633)	(53,711)	(11,008)	(1,336)
Total	515,092	536,312	(322,593)	(194,960)	(47,692)	(28,933)

2017 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	15,020	16,755	(8,387)	(5,242)	(171)	2,955
Marine, aviation and transport	115,019	109,782	(95,672)	(40,141)	1,356	(24,675)
Fire and other damage to property	105,260	103,866	(139,871)	(36,735)	33,237	(39,503)
Third party liability	128,081	117,348	(61,367)	(44,700)	(643)	10,638
Miscellaneous	18,751	19,128	(15,599)	(6,543)	984	(2,030)
Total direct	382,131	366,879	(320,896)	(133,361)	34,763	(52,615)
Reinsurance	182,419	184,651	(212,969)	(63,664)	41,896	(50,086)
Total	564,550	551,530	(533,865)	(197,025)	76,659	(102,701)

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

b) Analysis of premium by destination:

	Gross Written Premiums	
	2018 £'000	2017 £'000
UK	85,332	92,581
Europe (excluding UK)	69,264	75,894
USA	156,057	179,174
Canada	86,845	95,117
Rest of the world	117,594	121,784
Total	515,092	564,550

5 Claims outstanding

Net reserves for claims outstanding at 31 December 2017 were reduced by £41.8m in calendar year 2018. Net reserves for claims outstanding at 31 December 2016 were reduced by £6.8m in calendar year 2017.

6 Net operating expenses

	2018	2017
	£'000	£'000
Commission costs	121,642	125,846
Other acquisition costs	9,905	9,784
Change in deferred acquisition costs	2,142	(5,068)
Administrative expenses	61,271	66,463
Gross operating expenses	194,960	197,025
Reinsurance commissions and profit participations	(3,636)	(1,890)
Net operating expenses	191,324	195,135

Commission paid during the year in respect of direct insurance business amounted to £96.9m (2017, £101.0m). Member's standard personal expenses are included within administrative expenses.

7 Investment income

	2018	2017
	£'000	£'000
Income from investments	21,247	21,270
Gains on the realisation of investments	812	24,083
Total	22,059	45,353

8 Investment expenses and charges

	2018	2017
	£'000	£'000
Investment management expenses, including interest	2,009	2,312
Losses on the realisation of investments	2,989	3,312
Total	4,998	5,624

9 Investment return

	2018	2017
	£'000	£'000
Investment income	22,059	45,353
Net unrealised losses on investments	(8,775)	(16,137)
Investment expenses and charges	(4,998)	(5,624)
Actual return on investments	8,286	23,592

10 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.

11 Auditor's remuneration

	2018	2017
	£'000	£'000
Audit of these Financial Statements	313	296
Audit-related assurance services	150	146
Total Auditor's remuneration	463	442

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

12 Remuneration of the active underwriter

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

	2018	2017
	£'000	£'000
Emoluments	254	297

13 Financial Investments

	Market Value		Cost	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Shares and other variable yield securities and units in unit trusts	30,643	27,819	20,986	17,033
Holdings in collective investment schemes	46,706	58,603	46,706	58,603
Debt securities and other fixed income securities	603,145	545,068	604,603	538,744
Overseas deposits	75,067	71,064	75,067	71,064
Deposits with credit institutions	15,747	38,047	15,747	38,047
Total	771,308	740,601	763,109	723,491

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).

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other fixed income securities and units in unit trusts	30,643	-	-	30,643
Holdings in collective investment schemes	46,706	-	-	46,706
Debt securities and other fixed income securities	31,941	571,204	-	603,145
Overseas Deposits	-	75,067	-	75,067
Deposits with credit institutions	15,747	-	-	15,747
Total	125,037	646,271	-	771,308

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other fixed income securities and units in unit trusts	27,819	-	-	27,819
Holdings in collective investment schemes	58,603	-	-	58,603
Debt securities and other fixed income securities	35,674	509,394	-	545,068
Overseas deposits	-	71,064	-	71,064
Deposits with credit institutions	38,047	-	-	38,047
Total	160,143	580,458	-	740,601

14 Debtors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amounts owed by intermediaries within one year	89,007	59,965	20,060	53,417
Amounts owed by intermediaries after more than one year	36	98	158	11
Total	89,043	60,063	20,218	53,428

15 Other debtors

	2018	2017
	£'000	£'000
Amounts due from group undertakings	26,308	5,056
Other debtors	4,059	929
Amounts due within one year	30,367	5,985

16 Year of Account development

Year of Account	2012	2013	2014	2015	2016	2017	2018	Profit to Member at 36 months
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2011 & prior	87,445	27,935						115,380
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	37,621		21,628
2016					(69,313)	18,395	44,173	(6,745)
2017						(128,714)	19,255	
2018							(83,484)	
Calendar Year Result	62,230	48,437	55,456	12,946	35,973	(72,698)	(20,056)	

A cash call of £6.7m from the corporate member has been proposed in relation to the 2016 year of account (2017, £21.6m distribution to the corporate member in relation to the 2015 year of account).

17 Technical provisions

Provision for claims outstanding	2018			2017		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 January	1,283,579	255,600	1,027,979	1,103,264	154,099	949,165
Movement in provision	(71,090)	(52,243)	(18,847)	230,706	114,675	116,031
Movement due to foreign exchange	19,339	7,494	11,845	(50,391)	(13,174)	(37,217)
Total movement in reserves	(51,751)	(44,749)	(7,002)	180,315	101,501	78,814
At 31 December	1,231,828	210,851	1,020,977	1,283,579	255,600	1,027,979

Provision for unearned premiums	2018			2017		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 January	191,629	9,397	182,232	189,614	11,981	177,633
Movement in provision	(21,220)	2,487	(23,707)	13,020	(1,959)	14,979
Movement due to foreign exchange	6,271	842	5,429	(11,005)	(625)	(10,380)
Total movement in reserves	(14,949)	3,329	(18,278)	2,015	(2,584)	4,599
At 31 December	176,680	12,726	163,954	191,629	9,397	182,232

Deferred acquisition costs	2018 £'000	2017 £'000
At 1 January	46,818	44,328
Change in deferred acquisition costs	(2,142)	5,068
Movement due to foreign exchange	1,411	(2,578)
At 31 December	46,087	46,818

The tables below have been revalued to reflect the current year end rates of exchange.

Gross outstanding claims provision as at 31 December 2018

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	2017 £'000	2018 £'000	Total £'000	
Estimate of cumulative claims incurred											
At end of underwriting year		239,338	237,645	162,459	121,321	113,454	134,943	348,854	196,718		
One year later		397,824	334,462	311,735	246,161	239,412	300,563	502,758			
Two years later		441,815	418,270	351,322	264,511	246,787	315,659				
Three years later		528,118	445,618	307,166	248,348	251,300					
Four years later		577,046	426,450	325,043	264,599						
Five years later		569,159	432,216	313,151							
Six years later		556,047	425,160								
Seven years later		557,015									
Cumulative paid claims											
At end of underwriting year		(21,307)	(19,139)	(14,092)	(8,631)	(11,274)	(21,888)	(40,753)	(19,842)		
One year later		(113,908)	(108,223)	(90,616)	(67,151)	(74,837)	(102,156)	(198,289)			
Two years later		(252,669)	(198,365)	(183,873)	(112,375)	(125,853)	(182,202)				
Three years later		(375,029)	(292,136)	(203,704)	(153,081)	(155,434)					
Four years later		(485,855)	(307,390)	(215,975)	(178,375)						
Five years later		(493,430)	(312,853)	(233,927)							
Six years later		(494,351)	(331,891)								
Seven years later		(503,531)									
Gross outstanding claims provision at 31 December 2018		208,959	53,484	93,269	79,224	86,224	95,866	133,457	304,469	176,876	1,231,828

Net outstanding claims provision as at 31 December 2018

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	2017 £'000	2018 £'000	Total £'000	
Estimate of cumulative claims incurred											
At end of underwriting year		184,921	186,249	155,906	115,080	103,461	126,597	213,878	152,489		
One year later		311,535	294,577	275,820	219,895	220,502	272,471	375,704			
Two years later		349,954	353,367	307,696	217,588	204,095	289,281				
Three years later		393,532	368,914	261,015	209,352	208,572					
Four years later		414,623	355,804	281,465	221,785						
Five years later		398,377	360,844	265,628							
Six years later		388,679	348,611								
Seven years later		387,002									
Cumulative paid claims											
At end of underwriting year		(17,851)	(17,726)	(12,116)	(8,474)	(10,897)	(21,681)	(32,468)	(19,653)		
One year later		(93,041)	(94,982)	(73,506)	(63,900)	(71,505)	(97,497)	(149,825)			
Two years later		(189,181)	(160,979)	(146,455)	(104,013)	(118,810)	(170,137)				
Three years later		(262,815)	(233,376)	(161,724)	(134,458)	(147,191)					
Four years later		(323,882)	(241,250)	(172,397)	(152,065)						
Five years later		(330,058)	(246,515)	(187,836)							
Six years later		(331,466)	(258,283)								
Seven years later		(335,046)									
Net outstanding claims provision at 31 December 2018		191,941	51,956	90,328	77,792	69,720	61,381	119,144	225,879	132,836	1,020,977

18 Creditors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amounts owed to intermediaries within one year	(12,780)	(13,166)	5,855	10,428
Total	(12,780)	(13,166)	5,855	10,428

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.

19 Other creditors

	2018 £'000	2017 £'000
Amounts due to other group undertakings	71,115	10,210
Inter-Group loan payable	39,065	-
Total	110,180	10,210

20 Discounted claims

The claims relating to PPOs have been discounted as follows:

Class of business	Discount rates		Mean term of liabilities	
	2018	2017	2018	2017
Motor	3.0%	3.0%	21.6 years	20.4 years

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

The claims provisions before discounting are as follows:

	2018 £'000	2017 £'000
Total claims provisions before discounting	104,515	117,783
Reinsurers' share of total claims provisions before discounting	-	-
Net claims provisions before discounting	104,515	117,783
Discount credit	(49,354)	(58,849)
Net claims provisions post discounting	55,161	58,934

21 Related parties

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

	2018 £'000	2017 £'000
Expenses recharged	(68,245)	(81,694)
Expenses settled in the year	49,190	83,895
Year end balance due from the Syndicate	(23,188)	(4,134)

The Syndicate pays Income Tax for various territories, the most notable being 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:

	2018 £'000	2017 £'000
United States and Canadian Income Tax paid by the Syndicate in the year	12,296	6,370
United States and Canadian Income Tax reimbursed by MCAP in the year	(12,368)	(6,370)
Other Income Taxes paid by the Syndicate in the year	-	72
Year end balance due to the Syndicate	-	72

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 2018 £'000	Management Fees Settled 2018 £'000	YE balance due (from)/to the Syndicate 2018 £'000	Management Fees Charged 2017 £'000	Management Fees Settled 2017 £'000	YE balance due (from)/to the Syndicate 2017 £'000
Markel International Singapore PTE Limited	(4,623)	-	(4,904)	(3,334)	3,385	(281)
Markel International Hong Kong Limited	(289)	-	(1,144)	(300)	270	(261)
Markel Europe Limited	72	-	-	3	-	(72)
Markel International Labuan Limited	(570)	-	(572)	(69)	102	(2)
Markel International Dubai Limited	(549)	-	(484)	(353)	339	65
Markel Underwriting Services Limited Switzerland	(5,202)	-	(6,223)	(4,476)	3,455	(1,021)

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:

	2018 £'000	2017 £'000
Premiums assumed	392	813
Incurred claims movement	(233)	567
Year end balance due from the Syndicate	(97)	(4)

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 to/(from) the Syndicate at the end of the year relating to these are:

	2018 £'000	2017 £'000
Premiums ceded to MIICL	(7,021)	(17,199)
Incurred claims movement	(16,883)	48,467
Year end balance due to the Syndicate	64	1

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

	2018 £'000	2017 £'000
Fees paid	2,009	2,312
Year end balance due from the Syndicate	(410)	(524)

During 2017 the Syndicate had an inwards reinsurance arrangement with MIICL in relation to the Latin American property exposure placed at the company. The Syndicate recognised the following amounts in the year end and the balances due to the Syndicate at the end of the year relating to this contract are:

	2018 £'000	2017 £'000
Premiums assumed	-	775
Incurring claims movement	-	-
Year end balance due to the Syndicate	-	775