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Markel Syndicate 3000

Annual Report and Financial Statements for
the year ended 31st December 2010



Markel Syndicate 3000

Annual Report and Financial Statements for year ended
31st December 2010

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Directors and administration

Managing Agent

Markel Syndicate Management Limited

Board of Directors

I Marshall (Chairman)

J W Brazil

S M Carroll

A J Davies

N J S Line

R C Snedden

W D Stovin

Company Secretary

A J Bailey

Managing Agent's registered office

The Markel Building
49 Leadenhall Street
London, EC3A 2EA

Managing Agent's registered number

3114590

Syndicate

3000

Active Underwriter

J W Brazil

Bankers

Bank of New York

Barclays Bank

Citibank N.A.

Royal Bank of Canada

Royal Trust

Investment Managers

Markel Gayner Asset Management Corporation

Registered Auditor

KPMG Audit Plc, London

Lawyers

Norton Rose, London

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31st December 2010.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Results

The result for year ended 31st December 2010 is a profit of £28.0m (2009: £69.1m).

Principal activity

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

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business from its offices in London and its overseas operations in Toronto, Montreal, Vancouver, Stockholm, Singapore, Labuan and Hong Kong.

Business Profile

Markel International operates seven underwriting divisions, namely Marine and Energy, MGA, Professional and Financial Risks, Retail, Specialty, Equine and Trade Credit. Each division writes business into both the Syndicate and Company, with the exception of the Retail division which writes wholly on behalf of the Company. In addition, Markel has a wholly-owned Canadian subsidiary, Elliott Special Risks (ESR), which underwrites on behalf of the Syndicate.

Marine and Energy

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

MGA

The MGA division writes property and liability business for a wide range of insurers worldwide, providing coverage ranging from fire to catastrophe perils such as earthquake and windstorm. Business is written on a binding or delegated authority basis. The delegated authority account focuses mainly on small commercial insureds and is written through a network of coverholders, primarily in the United States and Canada. Coverholders underwriting this business are closely monitored, subject to audit and must adhere to strict underwriting guidelines.

Professional and Financial Risks

The Professional and Financial Risks division underwrites professional indemnity, directors' and officers' liability, intellectual property, some miscellaneous defence costs, incidental commercial crime and general liability coverages. The professional indemnity account offers unique solutions in four main professional classes including miscellaneous professionals and consultants, construction professionals, financial service professionals and professional practices. The miscellaneous professionals and consultants class includes coverages for a wide range of professionals including management consultants, publishers, broadcasters, pension trustees and public officials. The construction class includes coverages for surveyors, engineers, architects and estate agents. The financial services class includes coverages for insurance brokers, insurance agents, financial consultants, stockbrokers, fund managers, venture capitalists and bankers. The professional practices class includes coverages for accountants and solicitors. The directors' and officers' liability account offers coverage to public,

private and non-profit companies of all sizes on either an individual or blanket basis. The Professional and Financial Risks division writes business on a worldwide basis, limiting exposure in the United States.

Retail

The Retail division offers a full range of professional liability products, including professional indemnity, directors' and officers' liability and employment practices liability, through six branch offices in England and one branch office in Scotland. In addition, coverage is provided for small to medium-sized commercial property risks on both a stand-alone and package basis. The branch offices provide insureds and brokers with direct access to decision-making underwriters who possess specialised knowledge of their local markets. The division also underwrites certain niche liability products such as coverages for social welfare organisations.

Specialty

The Specialty division provides property treaty reinsurance on an excess of loss and proportional basis for per risk and catastrophe exposures. A significant portion of the division's excess of loss catastrophe and per risk treaty business comes from the United States with the remainder coming from international property treaties. The Specialty division also offers direct coverage for a number of specialist classes including financial institutions, contingency and other special risks. Coverage includes bankers blanket bond, computer crime, commercial fidelity, professional sports liability, event cancellation, non-appearance and prize indemnity.

Equine

The Equine division writes bloodstock, livestock and aquaculture-related products on a worldwide basis. The bloodstock account provides coverage for risks of mortality, theft, infertility and specified perils for insureds ranging in size from large stud farms to private horse owners. The livestock account provides coverage for farms, zoos, animal theme parks and safari parks. The aquaculture account provides comprehensive coverage for fish at onshore farms, offshore farms and in-transit risks.

Trade Credit

The Trade Credit division writes short-term trade credit coverage for commercial risks, including insolvency and protracted default. Political risks are covered in conjunction with commercial risks for currency inconvertibility, government action, import/export license cancellation, public buyer default and war. Products include coverages for captive reinsurance, trade receivables securitization, vendor financing, pre-credit/work in progress, anticipatory credit, factoring and contract replacement. Policy structures are on an excess of loss basis or ground up for specific or named buyer risks.

ESR

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

Business Review

It is a key part of Markel's strategy to underwrite for profit. However, due to the impact of the Deepwater Horizon drilling rig explosion (DWH) and the Chilean Earthquake, we reported an underwriting loss for 2010 of £8.4m (2009: £20.5m profit). This represents a 103.5% combined ratio (2009: 91.2%). The losses arising from DWH and the Chilean Earthquake were £18.7m net of reinsurance. The result included a release from prior year reserves of £4.9m (2009: £2.5m). This release is a result of the Markel strategy to reserve prudently coupled with the work of our claims department in dealing with claims in an expeditious manner.

The investment return was £36.4m (2009: £48.6m) generating a yield of 5.8% on the investment portfolio.

The overall profit of £28.0m (2009: profit of £69.1m) reflects excellent investment returns and our focus on minimising expenses, partially offset by the impact of the catastrophe losses experienced this year.

Business environment and future outlook

Competitive pressures, particularly in the professional liability programs, are expected to continue in 2011 but some stabilisation in rates is expected in catastrophe exposed classes of business following the loss activity experienced during 2010 and in the first two months of 2011. The Syndicate will continue to apply Markel's underwriting discipline of underwriting for profit rather than volume and, accordingly, will decline business where rates are not acceptable. Notwithstanding, 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 2011.

The Syndicate's capacity was increased by 13% to £340m for the 2011 year of account due to planned growth in existing lines of business.

Corporate governance

Markel Syndicate Management Limited ("MSM"), the Lloyd's managing agent of Syndicate 3000, is authorised by the Financial Services Authority ("FSA"). The board includes two non-executive directors and meets at least quarterly. Sub-committees of the board include the Executive Committee, Audit Committee, Risk Committee and Internal Audit Committee.

Principal risks and uncertainties

The Syndicate has a risk register detailing the risks to which it is exposed. Risks are grouped under the following categories:

- Underwriting and Reserving Risk
- Market Risk
- Credit Risk
- Operational Risk
- Liquidity Risk
- Group Risk
- Lloyd's Risk

There are currently 54 risks in the risk register.

The risk register is considered at least annually by the Board to ensure that it identifies all the risks to which the Syndicate is exposed. We identify key controls to mitigate each risk and seek confirmation from the owners of these controls that they are in place and are operating effectively.

Under Solvency II Lloyd's is seeking internal model approval for the market and the Syndicate is currently engaged in undertaking all the enhancements necessary to meet the standards required.

Key Performance Indicators

Annual Accounting Data Profit and Loss Account	2006 £'m	2007 £'m	2008 £'m	2009 £'m	2010 £'m
Gross written premiums	210.5	196.8	237.7	274.9	315.8
Net written premiums	180.7	166.6	213.2	237.6	268.6
Retention rate	85.8%	84.7%	89.7%	86.4%	85.1%
Net earned premiums	169.9	176.5	207.4	233.6	243.5
Net underwriting result	44.0	19.9	(5.8)	20.5	(8.4)
Loss & LAE ratio	35.9%	49.8%	65.0%	52.8%	66.5%
Expense ratio	38.2%	38.9%	37.8%	38.4%	37.0%
Combined ratio	74.1%	88.7%	102.8%	91.2%	103.5%
Investment return	21.1	20.9	3.7	48.6	36.4
Investment yield	3.8%	4.3%	0.7%	7.9%	5.8%
Profit/(loss)	65.1	40.8	(2.1)	69.1	28.0
Balance Sheet	2006 £'m	2007 £'m	2008 £'m	2009 £'m	2010 £'m
Financial investments and cash	484.5	490.8	608.6	622.2	657.6
Gross claims outstanding	734.5	666.7	838.5	744.9	764.7
Reinsurers' share of claims outstanding	248.1	198.4	249.2	178.0	159.8
Net claims outstanding	486.4	468.3	589.3	566.9	604.9
Three Year Accounting Data	2006 £'m	2007 £'m	2008 £'m	2009 £'m	2010 £'m
Syndicate Capacity	160.0	175.0	170.0	170.0	300.0
Underwriting result	40.9	10.1	5.2		
Investment result	17.9	37.3	29.8		
Result on closure	58.8	47.4	35.0		
Forecast return at 12 months	20.0%	12.5%	2.5%	20.0%	7.5%
Forecast return at 24 months	20.0%	10.0%	7.5%	10.0%	
Return on capacity at closure	36.7%	27.1%	20.6%		

The above key performance indicators demonstrate the results of the Syndicate over the past five years. The key highlights are as follows:

- Underwriting profits of £70.2m over the period 2006 – 2010 generating an average combined ratio of 93.2%.
- Profit of £200.9m over the period 2006 – 2010 due to underwriting profits and excellent investment returns.
- The increase in financial investments during 2010 reflects strong underwriting cashflows and investment value appreciation, partially offset by the distribution of the 2007 year of account profit and the settlement of syndicate expenses.
- The reduction in reinsurers' share of claims outstanding during 2010 was primarily due to the settlement of claims and proactive collection of reinsurance recoveries.
- The average return on capacity was 24.0% for the 2002-2008 closed years of account.
- The Syndicate's prudent reserving philosophy is reflected in the improvements in the forecast return as each year of account develops until closure.

Directors

The Directors of the Managing Agent who served during 2010 and up to the date of this report were as follows:

I Marshall (Chairman)
J W Brazil
S M Carroll
A J Davies
N J S Line
R C Snedden (Appointed 1st February 2010)
W D Stovin

Markel maintains liability insurance cover on behalf of the Directors and named Officers of the Company and its subsidiaries.

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

Carbon Policy

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

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

Statement of disclosure of information to auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself 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 Audit Plc 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 we will not hold an annual general meeting for the Syndicate.

By order of the Board



Jeremy Brazil
Director

London, 14th March 2011

Statement of Managing Agent's responsibilities

The managing agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual financial statements at 31st December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The annual financial statements are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing those Syndicate annual financial statements, the managing agent is required to:

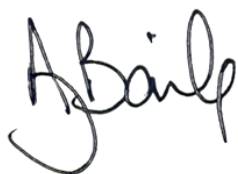
- i) select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual financial statements; and
- iv) prepare the annual financial statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual financial statements comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that they have complied with the above requirements in preparing the Syndicate annual financial statements of Syndicate 3000.

By order of the Board



A J Bailey
Secretary

London, 14th March 2011

Independent Auditor's Report to the Member of Syndicate 3000

We have audited the Syndicate 3000 annual accounts for the year ended 31st December 2010, as set out on pages 10 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the member of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's member as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of managing agent and auditors

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the Managing Agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31st December 2010 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 Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

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

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



Chris Moulder (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

14th March 2011

Profit and Loss Account: Technical Account for General Business

	Notes	2010		2009	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross written premiums	4	315,776		274,939	
Outward reinsurance premiums		(47,130)		(37,307)	
Net written premiums			268,646		237,632
Change in the gross provision for unearned premiums	18	(25,175)		(3,990)	
Change in the provision for unearned premiums, reinsurers' share	18	43		(7)	
Change in the provision for net unearned premium			(25,132)		(3,997)
Earned premiums, net of reinsurance			243,514		233,635
Allocated investment return transferred from the non-technical account					
	9		36,426		48,616
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(191,559)		(171,310)	
Reinsurers' share		49,372		48,973	
Net paid claims			(142,187)		(122,337)
Change in the provision for claims					
Gross amount	18	3,387		56,462	
Reinsurers' share	18	(23,125)		(57,537)	
Net change in provision			(19,738)		(1,075)
Claims incurred, net of reinsurance			(161,925)		(123,412)
Net operating expenses	6		(90,037)		(89,748)
Balance on the technical account			27,978		69,091

All operations relate to continuing business.

The notes on pages 16 to 26 form part of these annual financial statements.

Profit and Loss Account: Non-Technical Account

	Notes	2010 £'000	2009 £'000
Balance on the technical account		27,978	69,091
Investment income	7	30,154	33,999
Unrealised gains on investments		20,997	32,563
Investment expenses and charges	8	(3,500)	(10,941)
Unrealised losses on investments		(11,225)	(7,005)
Allocated investment return transferred to general business technical account	9	(36,426)	(48,616)
Profit for the financial year		27,978	69,091

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

The notes on pages 16 to 26 form part of these annual financial statements.

Statement of Total Recognised Gains and Losses

	2010	2009
	£'000	£'000
Profit for the financial year	27,978	69,091
Net foreign exchange revaluation gains	161	4,246
Total recognised gains	28,139	73,337

The notes on pages 16 to 26 form part of these annual financial statements.

Balance Sheet - Assets

as at 31st December 2010

	Notes	2010		2009	
		£'000	£'000	£'000	£'000
Investments					
Financial investments	14		641,551		606,305
Reinsurers' share of technical provisions					
Provisions for unearned premiums	18	9,611		9,151	
Claims outstanding	18	159,773		178,028	
			169,384		187,179
Debtors					
Debtors arising out of direct insurance operations	15	20,996		29,274	
Debtors arising out of reinsurance operations	15	32,090		31,131	
Other debtors	16	6,161		2,453	
			59,247		62,858
Cash at bank			16,098		15,928
Prepayments and accrued income					
Accrued interest		7,175		7,241	
Deferred acquisition costs		29,955		18,507	
			37,130		25,748
Total Assets			923,410		898,018

The notes on pages 16 to 26 form part of these annual financial statements.

Balance Sheet - Liabilities

as at 31st December 2010

	Notes	2010		2009	
		£'000	£'000	£'000	£'000
Capital and reserves					
Member's balance	17		32,519		51,797
Technical provisions					
Provisions for unearned premiums	18	110,836		81,745	
Claims outstanding	18	764,675		744,892	
			875,511		826,637
Creditors					
Creditors arising out of direct insurance operations	19	(5,012)		2,488	
Creditors arising out of reinsurance operations	19	19,750		14,814	
Other creditors	20	642		2,282	
			15,380		19,584
Total Liabilities			923,410		898,018

The annual financial statements on pages 10 to 26 were approved by the Board of Markel Syndicate Management Limited on 14th March 2011 and were signed on its behalf by



Andrew J Davies
Director

London, 14th March 2011

The notes on pages 16 to 26 form part of these annual financial statements.

Statement of Cashflows

	Notes	2010 £'000	2009 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		27,978	69,091
Net unrealised investment (gains)/losses including foreign exchange		(30,294)	571
Increase/(decrease) in net technical provisions		66,669	(22,493)
Foreign exchange movement on balance due to member		161	4,246
Increase in debtors, prepayments and accrued income		(7,790)	(5,937)
(Decrease)/increase in creditors, accruals and deferred income		(4,204)	5,613
Net cash inflow from operating activities		52,520	51,091
Transfer to the member in respect of underwriting participations		(47,398)	(36,903)
Net investment of cash flows		5,122	14,188
Cash flows were invested as follows:			
Decrease in cash holdings		(100)	(10,919)
Increase in portfolio investments		5,222	25,107
Net investment of cash flows	21	5,122	14,188

Notes to the Financial Statements

1. Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006.

2. Accounting policies

a) *Underwriting result*

General business:

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

- i) Written premiums relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums not yet due or notified (pipeline premium), less an allowance for cancellations. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.
- ii) Unearned premiums represent the proportion of premiums written in the year that relates to unexpired terms of policies in force at the balance sheet date, calculated on time apportionment bases. 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) The 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 are expected to exceed the unearned premiums receivable under these contracts. Provision for unexpired risks is calculated separately by class and excludes any allowance for investment income. Unexpired risk surplus and deficits are offset where, in the opinion of the Directors, the business classes concerned are managed together. In such cases a provision for unexpired risks is made only where there is an aggregate deficit.
- vi) Claims incurred comprise claims and claims handling expenses paid in the year and the change in provisions for outstanding claims, including provisions for claims incurred but not reported and claims handling expenses. The adequacy of the outstanding claims provisions is assessed by reference to projections of the ultimate development of claims in respect of each underwriting year. Management continually attempts to improve its loss estimation process by refining its ability to analyse loss development patterns, claims payments and other information, but many reasons remain for potential adverse development of estimated ultimate liabilities. The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgements. As part of the reserving process, historical data is reviewed and the impact of various factors such as trends in claim frequency and severity, changes in operations, emerging economic and social trends, inflation and changes in regulatory and litigation environments is considered. Significant delays occur in notifying certain claims and a large measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at

the balance sheet date. The reserve for unpaid losses and loss adjustment expenses is determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

- The two most critical assumptions as regards these claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the models used for current business are fair reflections of the likely level of ultimate claims to be incurred. However, the directors believe the process of evaluating past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. Management currently believes the Syndicate's gross and net reserves, are adequate. There is no precise method, however, for evaluating the impact of any significant factor on the adequacy of reserves, and actual results are likely to differ from original estimates.
- Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the technical profit and loss account, net of the change in deferred acquisition costs. Deferred acquisition costs represent the proportion of acquisition costs incurred, which corresponds to the unearned premiums provision.

b) *Investment return*

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

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

The investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

c) *Investments*

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

d) *Foreign currencies translation*

Transactions in US dollars, Canadian dollars, Australian dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

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

e) **Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to the member. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

f) **Pension costs**

Markel Syndicate Management Limited participates in the group-defined benefit and defined contribution schemes. Pension contributions relating to syndicate staff are charged to the Syndicate and included in net operating expenses.

3. Management of financial risk

Financial risk management objectives

The Syndicate is exposed to financial risks primarily through its financial assets, reinsurance assets and policyholder liabilities. The Syndicate's risk management process is controlled via the use of a Risk Register. This is a risk-based process, using Individual Capital Assessment principles 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 market risk, credit risk and liquidity risk.

a) **Market risk**

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

- **Interest rate risk:** The Syndicate works to manage the impact of interest rate fluctuations on the fixed maturity portfolio. The effective duration of the fixed maturity profile is managed with consideration given to the estimated duration of policyholder liabilities
- **Foreign Exchange Risk:** Foreign Exchange Risk is managed primarily by matching assets and liabilities in each foreign currency as closely as possible. To assist in the matching of assets and liabilities in foreign currencies the Syndicate may purchase foreign exchange forward contracts or buy and sell foreign currencies in the open market
- **Equity Price Risk:** The Syndicate sets limits on the amount of equities that can be held with any one issuer. The overall equity portfolio is also monitored to ensure that equity risk does not exceed the Syndicate's risk appetite.

b) **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:

- Reinsurance recoverables
- Amounts due from insurance intermediaries
- Amounts due from 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. The Syndicate's fixed maturity portfolio has an average rating of AA, with at least 94% rated 'A' or better.

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

c) **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.

4. Segmental analysis

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

2010 Calendar Year	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Insurance						
Accident & Health	419	167	(103)	(137)	(40)	(113)
Marine, aviation and transport	84,645	81,045	(50,246)	(27,556)	(3,006)	237
Fire and other damage to property	37,425	40,081	(18,847)	(12,499)	(7,297)	1,438
Third party liability	97,812	79,910	(68,154)	(20,044)	(6,286)	(14,574)
Miscellaneous	5,500	4,601	(3,214)	(2,252)	(1,263)	(2,128)
Total Direct	225,851	205,804	(140,564)	(62,488)	(17,892)	(15,140)
Reinsurance	89,925	84,797	(47,608)	(27,551)	(2,947)	6,692
Total	315,776	290,601	(188,172)	(90,037)	(20,840)	(8,448)

2009 Calendar Year	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Insurance						
Accident & Health	257	225	449	(89)	(187)	398
Marine, aviation and transport	73,729	73,691	(30,181)	(25,198)	(16,783)	1,529
Fire and other damage to property	44,511	42,766	(4,484)	(12,954)	(3,927)	21,401
Third party liability	75,778	78,741	(50,255)	(25,830)	(9,344)	(6,688)
Miscellaneous	4,367	4,381	(2,974)	(1,549)	(566)	(708)
Total Direct	198,642	199,804	(87,445)	(65,620)	(30,807)	15,932
Reinsurance	76,297	71,145	(27,403)	(24,128)	(15,071)	4,543
Total	274,939	270,949	(114,848)	(89,748)	(45,878)	20,475

All premiums are concluded in the United Kingdom

b) *Analysis of premium by destination:*

	Gross Written Premiums	
	2010 £'000	2009 £'000
UK	16,140	18,878
Europe (excluding UK)	55,944	59,898
USA	53,063	49,198
Canada	58,898	24,008
Rest of the world	131,731	122,957
Total	315,776	274,939

5. Claims outstanding

Net reserves for claims outstanding at 31st December 2009 were increased by £4.9m in calendar year 2010. Net reserves for claims outstanding at 31st December 2008 were reduced by £2.5m in calendar year 2009.

6. Net operating expenses

	2010 £'000	2009 £'000
Commission costs	65,652	53,742
Other acquisition costs	13,470	19,214
Change in deferred acquisition costs	(7,894)	270
Administrative expenses	18,977	17,510
Loss on exchange	266	-
Gross operating expenses	90,471	90,736
Reinsurance commissions	(434)	(988)
Net operating expenses	90,037	89,748

Commission paid during the year in respect of direct insurance business amounted to £53.3m (2009: £42.3m).

Member's standard personal expenses are included within administrative expenses.

7. Investment income

	2010 £'000	2009 £'000
Income from investments	25,441	26,216
Gains on the realisation of investments	4,713	7,783
Total	30,154	33,999

8. Investment expenses and charges

	2010 £'000	2009 £'000
Investment management expenses, including interest	1,333	1,333
Losses on the realisation of investments	2,167	9,608
Total	3,500	10,941

9. Investment return

	2010 £'000	2009 £'000
Investment income	30,154	33,999
Net unrealised gains on investments	9,772	25,558
Investment expenses and charges	(3,500)	(10,941)
Actual return on investments	36,426	48,616

10. Rates of exchange

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

	Year-End Rate 2010	Average Rate 2010	Year-End Rate 2009	Average Rate 2009
US Dollar	1.56	1.55	1.62	1.56
Canadian Dollar	1.55	1.61	1.70	1.78
Euro	1.16	1.16	1.13	1.12
Australian Dollar	1.53	1.69	1.80	1.99

11. Staff numbers and costs

Staff are employed by Markel International Services Limited. For a full breakdown of employment costs, please refer to Markel International Services Limited Annual Report and Financial Statements.

12. Auditor's remuneration

	2010 £'000	2009 £'000
Audit of these financial statements	90	74
Other services pursuant to legislation	50	50
Total auditor's remuneration	140	124

13. Emoluments of the active underwriter

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

	2010 £'000	2009 £'000
Emoluments	281	346

14. Investments

	Market Value		Cost	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Shares and other variable yield securities and units in unit trusts	44,789	16,164	37,701	15,568
Holdings in collective investment schemes	24,150	41,790	24,150	41,790
Debt securities and other fixed income securities	492,505	483,504	475,074	469,954
Overseas Deposits	80,107	64,847	80,107	64,847
Total	641,551	606,305	617,032	592,159

15. Debtors arising out of direct insurance operations and reinsurance operations

	Direct Insurance Operations		Reinsurance Operations	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts owed by intermediaries within one year	20,760	29,153	32,028	31,031
Amounts owed by intermediaries after more than one year	236	121	62	100
Total	20,996	29,274	32,090	31,131

16. Other debtors

	2010 £'000	2009 £'000
Amounts due from group undertakings	2,813	-
Other debtors	3,348	2,453
Amounts due within one year	6,161	2,453

17. Reconciliation of member's balance

	2010 £'000	2009 £'000
Member's balance brought forward at 1 st January	51,797	15,409
Profit for the financial year	27,978	69,091
Net foreign exchange revaluation gains	161	4,246
Payments of profit to the member's personal reserve fund	(47,417)	(36,949)
Member's balance carried forward at 31st December	32,519	51,797

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

Year of Account development

Year of Account	2002 £'000	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	Profit to member at 36 months £'000
2002	9,595	26,394	37,530							73,519
2003		5,176	16,522	69,664						91,362
2004			(11,337)	1,633	43,684					33,980
2005				(49,743)	14,066	22,332				(13,345)
2006					5,327	16,767	36,678			58,772
2007						4,941	(1,022)	43,498		47,417
2008							(25,459)	25,858	34,563	34,962
2009								3,981	716	
2010									(7,140)	
Calendar Year Result	9,595	31,570	42,715	21,554	63,077	44,040	10,197	73,337	28,139	

18. Technical Provisions

Provision for claims outstanding	2010			2009		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 st January	744,892	178,028	566,864	838,455	249,187	589,268
Movement in provision	(3,387)	(23,125)	19,738	(56,462)	(57,537)	1,075
Movement due to foreign exchange	23,170	4,870	18,300	(37,101)	(13,622)	(23,479)
Total movement in reserves	19,783	(18,255)	38,038	(93,563)	(71,159)	(22,404)
At 31st December	764,675	159,773	604,902	744,892	178,028	566,864

Provision for unearned premiums	2010			2009		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 st January	81,745	9,151	72,594	82,343	9,661	72,682
Movement in provision	25,175	43	25,132	3,990	(7)	3,997
Movement due to foreign exchange	3,916	417	3,499	(4,588)	(503)	(4,085)
Total movement in reserves	29,091	460	28,631	(598)	(510)	(88)
At 31st December	110,836	9,611	101,225	81,745	9,151	72,594

19. Creditors arising out of direct insurance operations and reinsurance operations

	Direct insurance operations		Reinsurance operations	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts owed to intermediaries within one year	(5,014)	2,482	19,750	14,748
Amounts owed to intermediaries after more than one year	2	6	-	66
Total	(5,012)	2,488	19,750	14,814

The debit balance within amounts owed to intermediaries within one year 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 USMs are recognised in the following period, will reduce insurance reserves and hence reduce the liabilities on the balance sheet.

20. Other creditors

	2010 £'000	2009 £'000
Amounts due to other group undertakings	642	2,282

21. Movement in opening and closing portfolio investments net of financing

	2010 £'000	2009 £'000
Net cash outflow for the year	(100)	(10,919)
Cash flow:		
Increase in overseas deposits	7,444	4,140
Net portfolio investments	(2,222)	20,967
Movement arising from cash flows	5,122	14,188
Changes in market value and exchange rates	30,294	(571)
Total movement in portfolio investments	35,416	13,617
Portfolio at 1 st January	622,233	608,616
Portfolio at 31st December	657,649	622,233

22. Movement in cash, portfolio investments and financing

	At 1 st January 2010 £'000	Cash Flow £'000	Changes to market values and currencies £'000	At 31 st December 2010 £'000
Cash at bank	15,928	(100)	270	16,098
Overseas deposits	64,847	7,444	7,816	80,107
Portfolio investments:				
Shares and other fixed income securities and units in unit trusts	16,164	21,534	7,091	44,789
Holdings in Collective Investment Schemes	41,790	(19,421)	1,781	24,150
Debt securities and other fixed income securities	483,504	(4,335)	13,336	492,505
Total cash, portfolio investments and financing	622,233	5,122	30,294	657,649

23. Net cash outflow on portfolio investments

	2010 £'000	2009 £'000
Purchase of shares and other variable yield securities and units in unit trusts	(22,732)	(15,568)
Purchase of debt securities and other fixed income securities	(767,065)	(672,059)
Movement of holdings in collective investment schemes	19,421	(16,123)
Sale of shares and other variable yield securities and units in unit trusts	1,198	-
Sale of debt securities and other fixed income securities	771,400	682,783
Net cash inflow / (outflow) on portfolio investments	2,222	(20,967)

24. Related parties

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

25. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA 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.

26. Subsequent events

Significant flooding in Queensland, Australia dominated the end of 2010 and beginning of 2011. The Syndicate has provided for £3.1m in relation to net losses which it believes were incurred pre 31st December 2010. The start of 2011 also saw a severe tropical cyclone, Yasi, make landfall in northern Queensland.

On 22nd February 2011, an earthquake measuring 6.3 on the Richter scale struck approximately 10 kilometers south-east of Christchurch, New Zealand's second most populous city. The earthquake caused extensive damage in the Christchurch area and, although it is too early to assess, the Syndicate expects to report losses of a similar or greater magnitude to those recorded for the September 2010 New Zealand earthquake.

On 11th March 2011, an earthquake measuring 9.0 on the Richter scale struck 130 kilometers off the east coast of the Oshika Peninsula, Japan. The earthquake and subsequent tsunami caused extensive damage to the north-east coast of Japan.

Losses relating to these events in 2011 are not included within the results for 2010.