Markel International Insurance Company Limited

Annual Report and Financial Statements for the year ended 31 December 2017

Registered Number 966670

MARKEL®

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Annual Report and Financial Statements
for the year ended 31 December 2017

Contents

Directors and Administration

Board of Directors

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

Company Secretary

Andrew J Bailey

Registered office

20 Fenchurch Street
London
EC3M 3AZ

Investment manager

Markel Gayner Asset Management Corporation

Bankers

Bank of New York
Barclays Bank plc
Citibank N.A.
Royal Trust
Northern Trust

Registered number

The Company's registered number is 966670 (England and Wales).

Registered Auditor

KPMG LLP, London

Lawyers

Norton Rose Fulbright LLP, London

Strategic Report

The Directors submit their Strategic Report for Markel International Insurance Company Limited ("the Company") for the year ended 31 December 2017.

Review of the business

The Company is a subsidiary of Markel Capital Holdings Limited ("MCH"). Its ultimate holding company is Markel Corporation ("Markel"), which is incorporated in Virginia in the United States and its ultimate European Economic Area ("EEA") parent company is Markel International Limited ("MINT"). The Company's principal activity is the transaction of general insurance from its office in London and its branch operations in Spain, the Netherlands, Germany, Ireland and Switzerland, in addition to overseas operations in Latin America and Dubai. Markel (UK) Limited also underwrites on behalf of the Company through its UK branch network. During Q1 2017 the branch operation in Sweden was closed.

The Company holds Surplus Lines Licences and is an accredited reinsurer in most US States. It is also able to write general insurance in a number of other overseas territories.

On 9 March 2015, with the exception of one specific account, the Company entered into agreements with a third party to reinsure its remaining liabilities and exposures relating to business underwritten with respect to 1992 and all prior underwriting years. With effect from 18 March 2015, the third party took over the management of claims and all future administration relating to these liabilities and exposures. The final Court hearing was held on 23 March 2017 where the Part VII transfer was granted and the transfer was effective from 31 March 2017.

On 29 November 2017, MCH completed the acquisition of EC Insurance Company Limited ("ECIC"), having received approval from the Prudential Regulation Authority ("PRA"). ECIC will become part of MINT's UK National Markets business, and provides a wide range of insurance products for contractors and affinity groups across the UK building services sector. As at the date of acquisition, the Company entered into a portfolio transfer agreement with ECIC to assume its net technical provisions. It is the intention for MIICL to become the primary direct insurer of the ECIC renewal business from 1 April 2018.

Business profile and units

The Company operates six underwriting units, namely Marine, Energy & Property; Specialty & Financial Lines; Reinsurance; Markel Assurance; National Markets and Latin America.

Marine, Energy and Property

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

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

The cargo account comprises a broad portfolio of transit and storage risk covering most industries on a global basis. The hull account covers physical damage to ocean-going tonnage, yachts, building risks and mortgagee's interest. The liability account provides coverage for a broad range of energy liabilities. The terrorism account covers physical damage resulting from terrorism, strike, riots, war and political violence. The war account offers coverage for marine and aviation war across all vessel types and tonnages. The specie account includes coverage for fine art, exhibition business and other aspects of valuable item insurance.

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

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

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 professional sports, locum schemes, affinity, high net worth and entrepreneurs and business travel.

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

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

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

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

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

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

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

The management liability account spans a wide range of industries and coverage includes directors' and officers' liability (D&O), employment practices liability (EPL) and limited liability partnership (LLP) cover.

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

Financial institutions insurance can provide cover on a stand-alone basis or as a blended package to include bankers blanket bond, professional indemnity and D&O, depending on the clients requirements.

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

Trade Credit, 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 bonds and commmercial bonds. Whilst embedded within construction, surety bonds can be utilised across a wide variety of trade sectors and international markets.

Reinsurance

This unit includes international casualty treaty plus international and North American property treaty business.

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.

Markel Assurance

Markel Assurance is focused on large accounts and complex risks, providing casualty, professional liability, marine and property coverage for privately-held companies and publicly-traded companies.

National Markets

The National Markets unit offers a full range of professional liability products, including professional indemnity, directors’ and officers’ liability and employment practices liability. 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 unit also underwrites certain niche liability products such as coverages for social welfare organisations.

The National Markets unit also includes business written through Abbey Protection Group ("Abbey"). Abbey sells and underwrites insurance products which provide protection against legal expenses and other professional fees incurred by clients as a result of legal actions and HMRC investigations. It also provides legal, human resources and specialist tax consultancy services.

Latin America

The Company's operations in Latin America transact reinsurance business on a range of product lines including accident and health, property and surety.

Results and performance

The results of the Company for the year, as set out on pages 17 to 19 show a loss on ordinary activities before taxation of $32.0m (2016, profit of $99.8m). Shareholder's funds as at 31 December 2017 were $542.9m (2016, $618.7m).

The Company reported an underlying underwriting loss of $115.1m for the year (2016, profit of $34.6m). This represents a combined ratio of 127.2% (2016, 90.7%). The underwriting result has been significantly impacted by $129.9m of natural catastrophe net losses during the third and fourth quarters of 2017 (hurricane Harvey; hurricane Irma; hurricane Maria; Mexico City Earthquake; Northern California widfires; hurricane Nate; Southern California wildfires). While none of these catastrophe losses individually or in total exceeded the Company's risk appetite for market events of this size, they contributed 32.9% to the combined ratio.

The 2017 underwriting loss was also significantly impacted by the change to the Ogden discount rate. On February 27, 2017 the UK Ministry of Justice announced that the discount rate in the Ogden tables would decrease from 2.5% to minus 0.75%. As a result of this reduction the reserves held relating to UK Motor Treaty business have been adversely impacted, resulting in a $20.0m strengthening to the prior year losses.

The adverse impacts to the underwriting result were partially offset by a release from prior year reserves of $67.6m (2016, $83.8m). This release is a result of more favourable claims development than originally anticipated and the work of our claims department in dealing with claims in an expeditious manner.

Gross written premiums of $570.3m for the year represent an increase on prior year of 26.3%.

The investment return of $82.6m comprises income of $28.3m, net realised gains of $5.3m and unrealised gains on the equity portfolio of $49.0m.

The Company’s operating performance and Statement of Financial Position remains strong and this was recognised by AM Best, Fitch, and Standard and Poor's, who maintained their ratings at A (Excellent), A+ (Strong), and A (Strong), respectively.

Key Performance Indicators

Income Statement		**2013 $m**	**2014 $m**	**2015 $m**	**2016 $m**	**2017 $m**
Gross written premiums		342.2	623.8	503.4	451.4	570.3
Net written premiums		264.8	378.8	238.5	363.0	464.8
Retention rate		77.4%	60.7%	47.4%	80.4%	81.5%
Net earned premiums		**269.2**	**330.6**	**271.9**	**372.1**	**422.9**
Underlying underwriting result	(1)	**40.3**	**11.1**	**44.5**	**34.6**	**(115.1)**
Loss and LAE ratio		45.4%	55.0%	25.3%	42.3%	84.5%
Expense ratio		39.6%	41.7%	58.3%	48.4%	42.7%
Combined ratio		**85.0%**	**96.7%**	**83.6%**	**90.7%**	**127.2%**
Investment return	(2)	109.9	84.4	39.1	51.2	82.6
Investment yield		9.0%	5.8%	2.6%	3.9%	6.3%
Profit/(loss) on ordinary activities	(3)	**142.2**	**89.0**	**98.2**	**99.8**	**(32.0)**

Statement of Financial Position		**2013 $m**	**2014 $m**	**2015 $m**	**2016 $m**	**2017 $m**
Financial investments	(2)	1,278.2	1,638.6	1,375.1	1,245.0	1,350.9
Reinsurers' share of claims outstanding		107.5	618.8	615.9	557.2	500.8
Gross claims outstanding		797.2	1,413.7	1,344.9	1,192.5	1,332.2
Net claims outstanding		689.7	794.9	729.0	635.3	831.4
Shareholder's Equity		**491.4**	**706.3**	**580.7**	**618.7**	**542.9**
Required Capital	(4)	**242.6**	**263.9**	**255.6**	**323.0**	**368.0**

(1) excluding movement on equalisation provision
(2) excluding investments in subsidiaries
(3) profit/(loss) on ordinary actvities is equal to profit before taxation for all years.
(4) 2012 - 2015 calculated as Individual Capital Guidance (ICG) under Solvency I, for 2016 onwards calculated as 1 year Solvency Capital Requirement ("SCR") under Solvency II

Financial success is measured by growth in shareholder's equity over time subject to the payment of dividends. This reflects the impact of both underwriting and investment performance and is consistent with Markel's key financial goal of building shareholder value. Underwriting performance is measured by underwriting profit or loss and combined ratio, whilst investment performance is measured by total investment return.

Business environment and future developments

With disciplined underwriting and its strong financial condition the Company is in an excellent position to capitalise on opportunities as they arise. The Company 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 Company will continue to look to develop new lines of business and markets, within the parameters of the overall underwriting strategy. The Company invests in high-quality corporate, government and municipal bonds, as well as a diverse equity portfolio and plans to continue this investment strategy in 2018.

The Company operates through a European branch network that is likely to be impacted by the UK's decision to leave the European Union ("EU") ("Brexit"). The effects of Brexit will depend in part on any agreements the UK makes to retain access to EU markets either during a transitional period or more permanently. Brexit could impair or end the ability of the Company to transact business in EU countries from the Company's UK offices, and impair the Company's ability to maintain its current branches in EU member countries and in Switzerland. Markel has started the process to obtain regulatory approval to establish an insurance company in Germany in order to continue transacting EU business if UK access to EU markets ceases or is materially impaired.

Going concern

No material uncertainties that cast doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Principal risks and uncertainties

The Company has a risk register detailing the risks to which it is exposed, which includes all business underwritten by the Company. 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 2 of these Financial Statements) provides a detailed explanation of the above risk categories.

There are currently 24 risks in the risk register. A formal review by the Risk and Capital Committee and the Company Board occurs at least annually to ensure that the risk register identifies all the risks to which the Company 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 Company Board.

An Own Risk and Solvency Assessment report is produced being a forward looking assessment of the risk profile and adequacy of the Company's capital to meet solvency needs over the business planning time horizon. The Company is in compliance with Solvency II.

The Company has approval from the PRA to use an internal model to calculate the Solvency Capital Requirement under Solvency II.

By order of the Board,

Andrew J Davies
Director
London
20 March 2018

Directors' Report

The Directors submit the Annual Report and Financial Statements of the Company for the year ended 31 December 2017.

Future developments

Likely future developments in the business of the Company are discussed in the Strategic Report beginning on page 2.

Dividends

During the year dividends of $50.0m were paid (2016, $40.0m).

Directors

The Directors of the Company who served during 2017 and up to the date of this report were as follows:

Ralph C Snedden	(Chair)
Jeremy W Brazil	(Resigned 31 December 2017)
Andrew J Davies	
Paul H Jenks	
Nicholas J S Line	
Hugh A J Maltby	
Ian Marshall	
Jeremy A Noble	
Hannah E Purves	(Appointed 1 May 2017)
John W J Spencer	
William D Stovin	
Anne Whitaker	
Simon Wilson	(Appointed 2 May 2017)

Markel maintains liability insurance cover on behalf of the Directors and named Officers of the Company and its subsidiaries. None of the Directors had a beneficial interest in the shares or debentures of any of the UK companies in the Markel Group.

Financial instruments and risk management

Information on the use of financial instruments by the Company and its management of the associated financial risk is disclosed in note 2 of these Financial Statements. In particular the Company's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note. The Company's exposure to cash flow risk is addressed under the headings of 'Market risk', 'Credit risk' and 'Liquidity risk'.

Branches outside the UK

Branches outside the UK are discussed in the Strategic Report beginning on page 2.

Political donations

No political donations were made in the year (2016, Nil).

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, the Company 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 programme of employee education.

Events since the reporting date

There have been no material events since the reporting date.

Disclosure of information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company'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 Company's Auditor is aware of that information.

Auditor

In accordance with Section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and KPMG LLP will, therefore, continue in office.

By order of the Board,

Andrew J Davies
Director
London

20 March 2018

Statement of Directors' Responsibilities

in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors’ Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard ("FRS") 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts.

Under Company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG

Independent auditor's report

to the members of Markel International Insurance Company Limited

1. Our opinion is unmodified

We have audited the Financial Statements of Markel International Insurance Company Limited ("the Company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, and the related notes, including the accounting policies in note 1.

In our opinion the Financial Statements:

— give a true and fair view of the state of Company's affairs as at 31 December 2017 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 Companies Act 2006.

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the Directors on 27 July 2000. The period of total uninterrupted engagement is for the 18 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Financial Statements as a whole	$4.5m (2016: $8.0m)	
Coverage	0.79% (2016: 1.8%) of Gross Written Premium	
Risks of material misstatement		**vs 2016**
Recurring risks	Valuation of claims reserves	◄►
	Valuation of premium estimates	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of claims reserves (Gross claims reserves: $1,332.2 million; 2016: $1,192.4 million; Net claims reserves: $831.4 million; 2016: $635.2 million) *Refer to page 24 (accounting policy) and page 42 (financial disclosures).*	**Subjective valuation:** The Company maintains reserves to cover the estimated cost of settling all expected future claims with respect to losses, regardless on whether those losses have been reported to the Company. The valuation of claims reserves requires the exercise of significant judgement in setting assumptions. We consider the higher risk to be connected with those classes of business that are material or where there: — have been changes in methodology and/or assumptions; or — have shown significant or unexpected developments. For these classes, there is a risk of error through the level of judgement in the assumptions applied for reserving across underwriting years and classes of business, particularly estimating the initial expected loss ratios on the most recent underwriting years.	Our procedures included: **Control design and re-performance:** We tested the design, implementation and operating effectiveness of key controls over the reserving process. These included: — data reconciliations to ensure completeness and accuracy of data extracted from the relevant systems used by the actuaries to set reserves; — by class of business, management compare quarterly movements in gross and net ultimates. For those movements which are above pre-defined thresholds, management will investigate and challenge the assumptions. — assessment of the governance processes and whether the Company followed the documented reserving policy in setting reserves. We involved our actuarial specialists to assist us in our challenge of the methodology and assumptions adopted as follows. – **Independent re-performance:** For a selection of classes of business which we considered to be higher risk, we performed independent re-projections using our loss ratios (gross and net of reinsurance) and compared these to the Company's projected results. Where there were material differences in results, we challenged the Company's assumptions to assess whether they fell within a reasonable range. The classes selected were concentrated on areas where there have been changes in methodology and/or assumptions and areas showing significant or unexpected developments. – **Expert judgement:** We have assessed and challenged the claims reserves methodology and assumptions by reference to prior experience, industry practice and our expectation derived from market experience. This included investigating any significant deviations from expectation. – **Assessment of the consistency of reserving:** We have considered the consistency of the reserving methodology which included the adjustments to the Q3 reserving loss ratios to the Q4 booked reserves and the setting of the reserving margin. **Test of details:** For a sample of case reserves, we vouched case reserve data back to source documents. **Assessing transparency:** We have also considered the adequacy of the Company's disclosures in respect of the degree of sensitivity to key assumptions. **Our results** We found the valuation of claims reserves to be acceptable (2016: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Valuation of premium estimates (Gross Written Premium $570.3 million; 2016: $451.4 million) *Refer to page 23 (accounting policy) and page 31 (financial disclosures).*	**Subjective estimate:** There is a risk that management do not recognise premium estimates in line with the contract terms, including adjustments made to premium estimates, delegated authority agreements, reinstatement premiums and other ad hoc adjustments.	Our procedures included: **Control design and re-performance:** We have tested the design, implementation and operating effectiveness of key controls over premium estimates booked, including the credit control procedures over debtor recoverability. **Assessment of the valuation of estimated premium:** We performed analytical procedures to compare the total estimated premium as a proportion of total gross written premium for 2017 and the preceding two years to assess for consistency in approach and any evidence of bias. We compared the Company's annual schedule of adjustments to write down outstanding estimated premium, by line of business, to total estimated premium for each line of business, and in aggregate, for the 2017 year end and the proceeding two year ends. We then investigated any significant movements. We also considered the magnitude of the aggregate annual adjustment for 2017 and the preceding two years, to assess the overall valuation of the premium estimate. We verified the annual adjustment to the journal posting. **Our results** We found the valuation of premium estimates to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Financial Statements as a whole was set at $4.5 million (2016: $8.0 million), determined with reference to a benchmark of Gross Written Premium, of which it represents 0.79% (2016: 1.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.2 million (2016: $0.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the Company's head office in London and the Bermuda and USA office locations.

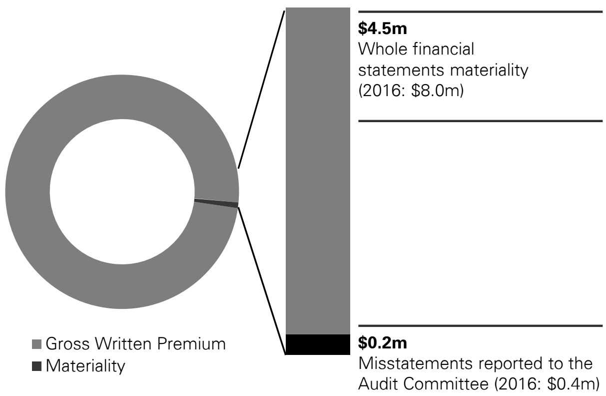
KPMG Bermuda performed testing on Markel Assurance policies written by the Company. This included substantive procedures over gross written premium, claims paid and claims outstanding.

KPMG USA performed controls testing over other financial investments and investment income and substantive procedures in respect of investment income and the existence of financial assets.

For both KPMG Bermuda and KPMG USA we evaluated the scope of the work and the information reported back to ensure that it addressed the risks relevant to our audit.

Gross Written Premium
$570.3m (2016: $451.4m)

Materiality
$4.5m (2016: $8.0m)



4. We have nothing to report on going concern

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 twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

5. We have nothing to report on the other Strategic Report and the Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the Financial Statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report 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 those reports;

— in our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the Financial Statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the Company, 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 11, the Directors are responsible for: the preparation of the Financial Statements including 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 Company'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 liquidate the Company or to cease 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the Financial Statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the Financial Statements including financial reporting (including related Company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related Financial Statement items.

In addition we considered the impact of laws and regulations in the specific area of regulatory capital recognising the financial and regulated nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

KPMG

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members 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 Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Karen Orr

Karen Orr
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
20 March 2018

KPMG

Income Statement: Technical Account

for the year ended 31 December 2017

		2017		2016	
	Notes	**$'000**	**$'000**	**$'000**	**$'000**
Earned premiums, net of reinsurance					
Gross written premiums	3	570,313		451,369	
Outward reinsurance premiums		(105,499)		(88,414)	
Net written premiums			464,814		362,955
Change in the gross provision for unearned premiums		(46,429)		17,373	
Change in the provision for unearned premiums reinsurers' share		4,468		(8,188)	
			(41,961)		9,185
Net Earned Premiums			**422,853**		**372,140**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(255,164)		(283,767)	
Reinsurers' share		52,439		89,456	
Net paid claims		(202,725)		(194,311)	
Change in the provision for claims					
Gross amount		(160,576)		63,530	
Reinsurers' share		5,900		(26,672)	
Net change in provision		(154,676)		36,858	
Net claims incurred			**(357,401)**		**(157,453)**
Net operating expenses	5		**(180,573)**		**(180,127)**
Change in the equalisation provision	20		-		10,954
Balance on the technical account			**(115,121)**		**45,514**

The notes on pages 23 to 52 form part of these Financial Statements.

Income Statement: Non-Technical Account

for the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Balance on the technical account		(115,121)	45,514
Investment income	6	41,997	56,802
Investment expenses and charges	7	(8,421)	(8,528)
Unrealised gains on investments	8	49,026	2,950
Net foreign exchange gains		529	3,076
(Loss)/profit on ordinary activities before taxation	9	**(31,990)**	**99,814**
Taxation on (loss)/profit on ordinary activities	11	7,022	(18,932)
(Loss)/profit for the year		**(24,968)**	**80,882**

The notes on pages 23 to 52 form part of these Financial Statements.

Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
(Loss)/profit for the year		(24,968)	80,882
Profit/(loss) recognised in pension schemes	25	7,169	(20,106)
Movement on deferred tax relating to pension scheme	25	(1,802)	3,545
Movement on pension asset recognition limit	25	(6,185)	13,712
Total Comprehensive (Retained Loss)/ Income for the year		**(25,786)**	**78,033**

The notes on pages 23 to 52 form part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 December 2017

2017	**Called-up Share Capital $'000**	**Share Premium $'000**	**Other Reserves $'000**	**Comprehensive Income $'000**	**Total $'000**
At beginning of year	267,202	199,765	(37,565)	189,309	**618,711**
Total comprehensive retained loss for the year	-	-	-	(25,786)	**(25,786)**
Dividends paid	-	-	-	(50,000)	**(50,000)**
At end of year	**267,202**	**199,765**	**(37,565)**	**113,523**	**542,925**

2016	**Called-up Share Capital $'000**	**Share Premium $'000**	**Other Reserves $'000**	**Comprehensive Income $'000**	**Total $'000**
At beginning of year	267,202	199,765	(37,565)	151,276	**580,678**
Total comprehensive income for the year	-	-	-	78,033	**78,033**
Dividends paid	-	-	-	(40,000)	**(40,000)**
At end of year	**267,202**	**199,765**	**(37,565)**	**189,309**	**618,711**

Statement of Financial Position: Assets

as at 31 December 2017

	Notes	2017 $'000	2016 $'000
Investments			
Investments in group undertakings and participating interests	14	5,939	5,939
Other financial investments	14	1,350,941	1,244,968
Deposits with ceding undertakings		4,498	5,229
		1,361,378	**1,256,136**
Reinsurers' share of technical provisions			
Provisions for unearned premiums	20	43,603	38,237
Claims outstanding	20	500,789	557,187
		544,392	**595,424**
Debtors			
Debtors arising out of direct insurance operations	15	78,735	67,823
Debtors arising out of reinsurance operations	15	105,726	100,541
Other debtors including taxation	17	40,929	12,523
		225,390	**180,887**
Tangible Assets			
Tangible assets	18	37	74
		37	**74**
Prepayments and accrued income			
Accrued interest		7,917	9,589
Deferred acquisition costs	20	49,936	35,827
		57,853	**45,416**
Total Assets		**2,189,050**	**2,077,937**

The notes on pages 23 to 52 form part of these Financial Statements.

Statement of Financial Position: Liabilities

as at 31 December 2017

	Notes	2017 $'000	2016 $'000
Capital and reserves			
Called up share capital	19	267,202	267,202
Share premium account		199,765	199,765
Other reserve		(37,565)	(37,565)
Comprehensive Income		113,523	189,309
Shareholder's funds attributable to equity interests		**542,925**	**618,711**
Technical provisions			
Provisions for unearned premiums	20	241,771	186,451
Claims outstanding	20	1,332,169	1,192,447
		1,573,940	**1,378,898**
Provisions for other risks and charges	21	150	614
Creditors			
Creditors arising out of direct insurance operations	22	21,087	9,446
Creditors arising out of reinsurance operations	22	36,831	30,295
Deferred taxation liability	16	1,143	1,438
Other creditors including taxation and social security	23	12,974	36,097
		72,035	**77,276**
Net liabilities excluding pension liability		**2,189,050**	**2,075,499**
Pension liability	25	-	2,438
Total Liabilities and Shareholder's Funds		**2,189,050**	**2,077,937**

Approved by the Board of Directors on 20 March 2018 and signed on behalf of the Company by Andrew Davies, Company Director.

Andrew J Davies
Director
London

20 March 2018

The notes on pages 23 to 52 form part of these Financial Statements.

Notes to the Financial Statements

1 Accounting policies

The Financial Statements have been prepared in compliance with Financial Reporting Standard ("FRS") 102, being the Financial Reporting Standard applicable in the UK and Republic of Ireland as issued in August 2014, and FRS 103 Insurance Contracts as issued in March 2014. The amendments to FRS 102 issued in July 2015 have been applied.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare consolidated Financial Statements on the grounds that the consolidated Financial Statements of Markel for the year ended 31 December 2017 are publicly available and include the Company in the consolidation. These Financial Statements present information about the Company as an individual undertaking and not about its group.

In these Financial Statements, the Company is considered to be a qualifying entity for the purposes of this FRS and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Key Management Personnel compensation; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules.

These 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. A summary of the more important accounting policies that have been applied consistently is set out below.

a) Use of judgements and estimates

In preparing these Financial Statements, the Directors of the Company have made judgements, estimates and assumptions that affect the application of the Company’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 to the Company. Premiums are shown gross of brokerage payable and excludes 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 reinsurance 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) Provision for unexpired risks is made where claims and related expenses 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, less the related deferred acquisition costs, under these contracts. Provision for unexpired risks is calculated separately by class and includes an allowance for investment return. Unexpired risk surpluses and deficits are offset where in the opinion of the Directors the business classes concerned are managed together and 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, the Company reviews historical data and considers 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. 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 claims outstanding 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 Company believes 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 Company's gross and net reserves, including the reserves for environmental and asbestos exposures, 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 claims outstanding, and related reinsurance recoveries, are discounted where there is a long peroid 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.

Management has considered environmental and latent injury claims and claims expenses in establishing the Company's reserve for claims outstanding. The Company continues to be advised of claims asserting injuries from hazardous materials and alleged damages to cover various clean-up costs affecting policies written in prior years. Coverage and claim settlement issues, such as determining that coverage exists and defining an occurrence, may cause the actual loss development to show more variation than the rest of the Company's book of business. Traditional reserving techniques cannot be used to estimate asbestos-related and environmental pollution claims and so the uncertainty about the ultimate cost of these types of claims is greater than the uncertainty relating to standard lines of business. The Company believes it has made reasonable provisions for claims, although the ultimate liability may be more or less than held reserves. The Company believes that future losses associated with these claims will not have a material adverse effect on its financial position. Still, there is no assurance that such losses will not materially affect the Company's results of operations for any period. Management is not able to estimate the additional loss, or range of loss, that is reasonably possible.

vii) Effective 1 January 2016 general insurance companies in the UK are required to be compliant with the regulatory requirements of Solvency II. Equalisation provisions are not required under Solvency II and therefore no provision is held in respect of this for 2016. In 2015, under the previous regulatory regime, equalisation provisions were established in accordance with the requirements of INSPRU 1.4. This provision, which was in addition to the provisions required to meet the anticipated ultimate cost of settlement of claims outstanding as at the reporting date, was required by Schedule 3 to SI2008/410 to be included within technical provisions within the Statement of Financial Position notwithstanding that it did not represent liabilities as at the reporting date.

viii) 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

Debt and other fixed income securities are measured at amortised cost in accordance with Chapter 11 of FRS 102. For all other financial assets and liabilities, the Company 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 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 Company's investment strategy.

Recognition

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company 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 Company 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 fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or 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 income and expenses
Investment income comprises interest and dividends receivable for the year gross of 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 and include the amortisation change in respect of investments carried at amortised cost.

Realised gains or losses represent the difference between net sales proceeds and purchase price, or in the case of investments carried at amortised cost, the latest carrying value. Realised losses may also include losses recognised on impairment of securities. 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. In the event that an unrealised investment loss is deemed more permanent in nature, the loss is recognised as a realised loss and unrealised losses are adjusted accordingly.

Cash and cash equivalents
The Company considers all financial investments with original maturities of three months or less to be cash and cash equivalents. Deposits with credit institutions are comprised of cash balances, certificates of deposit and call deposits. Money market funds are cash equivalents. Cash and cash equivalents are subject to an insignificant risk of changes in fair value and are used by the Company in management of its short-term commitment. Cash and cash equivalents are carried at cost in the Statement of Financial Position.

Investments in subsidiaries are stated at the lower of cost and net realisable value. Any impairment losses are recognised in the Statement of Comprehensive Income. An impairment loss is reversed if the subsequent increase in fair value can be related objectively to an event after the impairment loss was recognised. The reversal is recognised in the Statement of Comprehensive Income.

d) Pension costs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/asset taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the reporting date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the Income Statement: Technical Account.

Remeasurement of the net defined benefit liability/asset is recognised in the Statement of Comprehensive Income in the period in which it occurs.

e) Financial Investments

Debt securities and other fixed income securities are carried at amortised cost. Shares of other variable yield securities and units in unit trusts are stated at market value based on bid price. Short-term investments are comprised of investments with original maturities greater than three months and are carried at market value. 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 Company'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, significant unobservable inputs reflect the Company'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 Company's own data.

f) Operating leases

Annual rentals relating to operating leases are charged to net operating expenses on a straight line basis over the lease term.

g) Foreign currency translation

The Company's functional currency and presentational currency is US dollars. Transactions denominated in currencies other than the functional currency are recorded in the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary assets and liabilities denominated in a foreign currency, measured at fair value, are translated into the functional currency at the date when the fair value was determined.

Exchange differences are recorded in the Income Statement: Non-Technical Account.

h) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement: Non-Technical Account.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Financial Statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the reporting date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

i) Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the original cost of tangible assets over their expected lives at the following rates:

- Leasehold improvements, Colombian office 5 years
- IT equipment, Colombian office 3 years

The Company assesses at each reporting date whether tangible assets are impaired.

j) Merger accounting

Business combinations are accounted for using the merger accounting method, which treats the merged entities as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations are recorded in the 'other reserve' in the Statement of Changes in Equity, being the difference between the nominal value of new shares issued by the Company for the acquisition of the shares of the merged entity and the merged entity's own share capital and share premium account.

2 Risk and capital management

Financial and insurance risk management objectives

The Company is exposed to financial and insurance risks primarily through its financial assets, reinsurance assets and policyholder liabilities. The Company's risk management process is controlled using a risk register. Solvency II principles are used to manage the Company'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 and insurance 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 the Company 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 the Company to achieve the agreed target combined ratios under US GAAP". The Company'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.

The Company'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 an underwriting year over its historical development and the phasing of payments assists in the retention of key underwriting staff.

The Company sets prudent maximum line-sizes. 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 the 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) this has been agreed in advance as part of the Company's underwriting strategy. Compliance with line-size and policy duration is monitored by the Company's Legal and Regulatory department.

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

An independent reviewer performs a qualitative review of underwriting.

For natural catastrophe risk a key method of monitoring the Company's aggregate exposures is the production of a quarterly "Aggregations pack" which sets out the Company's exposures, both gross and net, to each material region or peril it 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 and Capital Committee and to the Board.

b) Reserving risk

Reserving risk is the risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, focusing on risks that arise from the quantification of those liabilities.

Claims handling guidelines set out the Company's approach to claims, including:

- Claims diaries – claims adjusters must ensure that they diaries relevant dates when necessary and/or stipulated in the relevant divisional claims handling protocols. There are protocols regarding which types of claims are subject to diary management, and targets set are monitored on a monthly basis.
- Panel of third party advisors – a panel of approved third party advisors (Attorneys and Adjusters) has been established. Third party advisors can only be appointed with sign off from a claims manager.
- Claims peer review audits – each underwriting unit is subject to a periodic claims audit of selected claims files for identifying strengths and weaknesses in the handling of claims. Senior independent claims personnel are responsible for the qualitative review of the handling of files.
- Static outstandings – reports on claims that have not been reviewed for 12 months are discussed by management.

A full Actuarial reserving exercise occurs quarterly. This involves internal review within the Actuarial department and discussions with relevant underwriters and claims staff. IBNR packs are produced which contain gross and net projections for all classes of business written at MINT. The IBNR packs are discussed in detail at quarterly "Combined Ratio Meetings", which are attended by members of the Board and the relevant Actuaries.

A full reserving process document is maintained and control owners confirm quarterly that key controls are in place and are operating effectively.

c) Market risk

Market risk is the risk that the Company suffers loss from volatility or over-concentration in its investment portfolio or due to currency mismatch between assets and liabilities.

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

The Company's investment manager, Markel Gayner Asset Management Corporation ("MGAM") produces a quarterly Investment Report which is reviewed quarterly by Markel's investment committee. The Company's Finance Director participates in this meeting. A quarterly investment report is produced for the Company's Board. The principal market risks and how exposure to these risks is managed are as follows:

Interest rate risk: The Company 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 Company 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 Company's risk appetite.

As the Company's fixed income securities are measured at amortised cost the impact of interest rate movements on this portfolio is negligible. The table below sets out the Company's sensitivity to stock market price movements.

Price risk	2017 $'000	2016 $'000
Impact on result of 5% increase in stock market prices	13,742	8,471
Impact on result of 5% decrease in stock market prices	(13,742)	(8,471)
Impact on net assets of 5% increase in stock market prices	11,406	7,031
Impact on net assets of 5% decrease in stock market prices	(11,406)	(7,031)

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 Company may purchase foreign exchange forward contracts or buy and sell foreign currencies in the open market. No foreign exchange forward contracts have been entered into during the year.

The table below details the matching of material currencies on the Statement of Financial Position. The currencies are reported in converted US dollars.

2017 Currency Code	GBP'000	USD'000	EUR'000	CAD'000	AUD'000	JPY'000	Other'000	Total'000
Financial investments	334,531	857,836	113,529	545	6,301	11,148	37,488	1,361,378
Reinsurers' share of technical provisions	99,365	369,129	44,849	5,112	6,542	(650)	20,045	544,392
Insurance and reinsurance receivables	77,147	80,513	10,250	(159)	2,620	566	13,524	184,461
Other assets	51,349	26,519	9,249	(12)	(334)	589	11,459	98,819
Total assets	**562,392**	**1,333,997**	**177,877**	**5,486**	**15,129**	**11,653**	**82,516**	**2,189,050**
Technical provisions	519,559	762,898	176,698	(3,978)	6,917	14,471	97,375	1,573,940
Insurance and reinsurance payables	12,460	38,418	4,026	(191)	1,157	20	2,028	57,918
Other creditors	(2,046)	16,913	(479)	2	10	-	(133)	14,267
Total liabilities	**529,973**	**818,229**	**180,245**	**(4,167)**	**8,084**	**14,491**	**99,270**	**1,646,125**

2016 Currency Code	GBP'000	USD'000	EUR'000	CAD'000	AUD'000	JPY'000	Other'000	Total'000
Financial investments	258,334	835,374	101,563	661	4,377	19,081	36,746	1,256,136
Reinsurers' share of technical provisions	77,343	443,242	42,767	4,189	4,465	(703)	24,121	595,424
Insurance and reinsurance receivables	57,449	86,976	5,454	56	1,458	1,937	15,034	168,364
Other assets	44,506	(1,004)	4,831	(919)	(153)	410	10,342	58,013
Total assets	**437,632**	**1,364,588**	**154,615**	**3,987**	**10,147**	**20,725**	**86,243**	**2,077,937**
Technical provisions	425,345	689,330	151,687	4,045	5,004	13,643	89,844	1,378,898
Insurance and reinsurance payables	1,365	21,457	7,210	2,646	1,044	(53)	6,072	39,741
Other creditors	14,786	33,372	(5,259)	(2,598)	(605)	-	891	40,587
Total liabilities	**441,496**	**744,159**	**153,638**	**4,093**	**5,443**	**13,590**	**96,807**	**1,459,226**

d) Credit risk

Credit Risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. Key areas where the Company is exposed to credit risk are:

- Amounts recoverable from reinsurers
- Amounts due from insurance intermediaries and insurance contract holders
- Amounts due from bond issuers

The Company’s fixed income securities portfolio is monitored to ensure credit risk does not exceed the Company’s risk appetite. In addition, the Company places limits on exposures to a single counterparty or concentrations of exposures to a specific counterparty. At least 90% of the Company's fixed income securities portfolio is rated 'A' or better.

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

The Company 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 Company. If a reinsurer is not willing to post collateral then their line size is reduced to an acceptable level in accordance with their applicable rating and capital level.

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

2017	AAA $'000	AA $'000	A $'000	BBB $'000	BB or less $'000	Not rated $'000	Total $'000
Shares and other variable yield securities and unit trusts	-	333	-	-	-	274,843	275,176
Debt securities	471,964	247,409	44,880	-	-	-	764,253
Short term investments	19,994	-	-	-	-	-	19,994
Money market funds	229	6,226	14,533	-	-	-	20,988
Deposits with credit institutions	-	38	205,115	65,377	-	-	270,530
Reinsurers share of claims outstanding	17,704	93,000	387,538	-	-	2,547	500,789
Reinsurance debtors	3,738	19,634	81,816	-	-	538	105,726
Total credit risk	**513,629**	**366,640**	**733,882**	**65,377**	**-**	**277,928**	**1,957,456**

2016	AAA $'000	AA $'000	A $'000	BBB $'000	BB or less $'000	Not rated $'000	Total $'000
Shares and other variable yield securities and unit trusts	-	299	-	-	-	169,428	169,727
Debt securities	526,040	305,837	48,126	4,030	-	-	884,033
Short term investments	34,993	-	-	-	-	-	34,993
Money market funds	3,357	-	-	-	-	-	3,357
Deposits with credit institutions	-	175	146,599	6,084	-	-	152,858
Reinsurers share of claims outstanding	6,064	107,452	442,407	-	-	1,264	557,187
Reinsurance debtors	1,094	19,389	79,830	-	-	228	100,541
Total credit risk	**571,548**	**433,152**	**716,962**	**10,114**	**-**	**170,920**	**1,902,696**

Assets not contained in the above table include: reinsurers' share of unearned premium, debtors arising out of direct insurance operations, deferred acquisition costs and other debtors. These assets have been excluded from the table as credit ratings are not readily ascertainable.

e) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost, primarily claims to policyholders. The Company monitors the projected settlement of liabilities and, in conjunction with MGAM, sets guidelines on the composition of the portfolio in order to manage this risk.

The average duration of liabilities is 4.2 years (2016, 5.0 years). The duration of the Company's investment portfolio is managed to match the expected cash outflows on liabilities.

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

f) Group risk

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

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

The risk of the Company being part of MINT is also considered. The policy is always to consider the interests of each legal entity, and the Company's 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 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. This 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.

h) Capital management

The Company is subject to capital requirements imposed by the PRA. As from 1 January 2016 the Company has complied with Solvency II. Previously, the Company complied with both the PRA's risk based ICA methodology and Solvency I.

3 Analysis of underwriting result

a) Analysis of business by class

2017	Gross Written Premiums $'000	Gross Earned Premiums $'000	Gross Claims Incurred $'000	Gross Operating Expenses $'000	Reinsurance Balance $'000	Total $'000
Direct Insurance						
Marine, aviation and transport	88,102	66,081	(52,291)	(24,116)	(4,181)	(14,507)
Fire and other damage to property	13,971	11,443	(3,478)	(4,176)	(774)	3,015
Third party liability	219,426	221,143	(111,925)	(80,704)	(13,936)	14,578
Miscellaneous	97,033	90,543	(45,368)	(33,043)	(5,301)	6,831
Total Direct	**418,532**	**389,210**	**(213,062)**	**(142,039)**	**(24,192)**	**9,917**
Reinsurance	151,781	134,674	(202,678)	(49,148)	(7,886)	(125,038)
Total	**570,313**	**523,884**	**(415,740)**	**(191,187)**	**(32,078)**	**(115,121)**

2016	Gross Written Premiums $'000	Gross Earned Premiums $'000	Gross Claims Incurred $'000	Gross Operating Expenses $'000	Reinsurance Balance $'000	Total $'000
Direct Insurance						
Marine, aviation and transport	33,773	36,552	(14,454)	(15,196)	(2,289)	4,613
Fire and other damage to property	9,385	9,444	(758)	(3,926)	(689)	4,071
Third party liability	211,423	215,589	(111,684)	(89,627)	(8,441)	5,837
Miscellaneous	83,543	82,956	(42,622)	(34,487)	(3,065)	2,782
Total Direct	**338,124**	**344,541**	**(169,518)**	**(143,236)**	**(14,484)**	**17,303**
Reinsurance	113,245	124,201	(50,719)	(51,634)	(4,591)	17,257
Total	**451,369**	**468,742**	**(220,237)**	**(194,870)**	**(19,075)**	**34,560**

b) **Analysis of premium by geographic area by origin:**

	Gross Written Premiums		Profit /(Loss) Before Taxation	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
United Kingdom				
Direct	313,785	242,719	8,405	5,928
United States				
Direct	-	54	(127)	(155)
Rest of World				
Direct	260	122	2,318	31
Europe (excluding UK)				
Direct	104,487	95,229	(679)	11,499
	418,532	**338,124**	**9,917**	**17,303**
Reinsurance			(125,038)	17,257
Change in the equalisation provision			-	10,954
Investment return			82,602	51,224
Foreign exchange gains			529	3,076
(Loss)/profit on ordinary activities before taxation			**(31,990)**	**99,814**

Direct insurance written in the United States comprises Excess and Surplus Lines business written in those states where the Company is an authorised insurer.

by destination:

	Gross Written Premiums	
	2017 $'000	**2016 $'000**
United States	130,648	78,051
United Kingdom	231,270	190,606
Europe (excluding UK)	106,093	88,943
Rest of the world	101,929	93,458
Canada	373	311
Total	**570,313**	**451,369**

4 Movement in prior year's provision for claims outstanding

The Company experienced a net favourable loss development in the year of $47.6m (2016, $83.8m).

5 Net operating expenses

	2017 $'000	**2016 $'000**
Acquisition costs	117,657	95,455
Change in deferred acquisition costs	(12,336)	1,067
Administrative expenses	85,866	98,348
Gross operating expenses	**191,187**	**194,870**
Reinsurance commissions and profit participation	(10,614)	(14,743)
Net operating expenses	**180,573**	**180,127**

Included in administrative expenses is auditors remuneration of $358.3k (2016, $359.7k).

	2017 $	2016 $
Audit of the Financial Statements	283,955	271,300
Audit related assurance services	74,359	88,400
Total	**358,314**	**359,700**

Total commissions for direct insurance accounted for during the year amounted to $90.9m (2016, $69.3m).

6 Investment income

	2017 $'000	2016 $'000
Income from investments	36,621	40,493
Gains on the realisation of investments	5,376	16,309
Total	**41,997**	**56,802**

7 Investment expenses and charges

	2017 $'000	2016 $'000
Investment management expenses, including interest	5,032	4,361
Amortisation of fixed interest securities	3,318	4,070
Losses on the realisation of investments	71	97
Total	**8,421**	**8,528**

8 Investment return

	2017 $'000	2016 $'000
Investment income	41,997	56,802
Investment expenses and charges	(8,421)	(8,528)
Unrealised gains on investments	49,026	2,933
Impairment reversal on subsidiary	-	17
Actual return on investments	**82,602**	**51,224**

9 (Loss)/profit on ordinary activities before taxation

	2017 $'000	2016 $'000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Rentals under operating leases - land and buildings	1,466	1,642
Depreciation	37	41

10 Rates of exchange

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

	Year-End Rate 2017	Average Rate 2017	Year-End Rate 2016	Average Rate 2016
Sterling	0.75	0.78	0.81	0.74
Canadian dollar	1.28	1.29	1.35	1.33
Euro	0.85	0.88	0.94	0.91
Australian dollar	1.31	1.30	1.38	1.35

11 Taxation

a) Analysis of charge for the year

Total taxation (credit)/charge in the Income Statement: Non-Technical Account.

	2017 $'000	2016 $'000
Current Taxation		
Current tax (credit)/charge on (loss)/profit for the period	(6,588)	16,983
Adjustment in respect of prior periods	(139)	147
Total current tax (credit)/charge	**(6,727)**	**17,130**
Deferred Taxation		
Origination and reversal of timing differences	(310)	1,852
Adjustment in respect of prior periods	15	**(50)**
Total deferred tax charge	**(295)**	**1,802**
Taxation (credit)/charge on (loss)/profit on ordinary activities	**(7,022)**	**18,932**

Analysis of current tax recognised in the Income Statement: Non-Technical Account

	2017 $'000	2016 $'000
UK corporation tax	6,727	(17,130)
Total current tax recognised in the Income Statement: Non-Technical Account	**6,727**	**(17,130)**

b) Factors affecting the taxation charge for the year

The taxation charge assessed for the year is higher (2016, lower) than the standard rate of corporation taxation in the UK of 19.25% (2016, 20.00%). The differences are explained below:

	2017 $'000	2016 $'000
(Loss)/profit on ordinary activities before taxation	(31,990)	99,814
(Loss)/profit on ordinary activities multiplied by standard effective rate of corporation taxation in the UK of 19.25% (2016, 20.00%)	(6,158)	19,963
Effects of		
Dividend income not taxable	(659)	(531)
Loss on revaluation of investments in subsidiaries	-	(3)
Other permanent differences	(538)	(572)
Prior year adjustment	(124)	97
Other	457	(22)
Total tax (credit)/charge for the year	**(7,022)**	**18,932**

12 Directors' remuneration

The disclosed remunerations are paid by Markel International Services Limited ("MISL") to Directors for their services to the Company. The remunerations are disclosed here in full as this is the Company to which the largest proportion of their remuneration relate.

	2017 £	2016 £
Aggregate remuneration	4,078,782	4,366,618
Company pension contributions to money purchase schemes	58,944	29,069

Retirement benefits are accruing to five Directors under defined contribution pension schemes (2016, four) and to two Directors under a defined benefit scheme (2016, two).

In February 2018, 1,123 Markel shares were awarded to eight Directors vesting on 31 December 2020 based on continuous employment to that date.

Highest paid Director

	2017 £	2016 £
Aggregate remuneration and benefits under long term incentives (excluding gains on exercise of share options and value of shares received)	726,319	889,323

The highest paid Director did not participate in the defined benefit scheme.

In February 2018, 434 Markel shares were awarded to the highest paid Director vesting on 31 December 2020 based on continuous employment to that date.

13 Staff numbers and costs

The majority of staff are employed by MISL. For a full breakdown of employment costs, please refer to the Annual Report and Financial Statements of MISL. The staff based in Columbia are employed by the Company. A breakdown of their employment costs is provided below.

Staff costs	**2017 $'000**	**2016 $'000**
Wages and salaries	1,634	1,919
Social security costs	(38)	44
Other pension costs	149	135
	1,745	**2,098**

The average number of employees of the Company during the year were as follows:

	2017	**2016**
Administration and finance	9	9
Sales, marketing and underwriting	6	6
	15	**15**

14 Investments

Investments in subsidiaries and participating interests

	Carrying Value		**Cost**	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Shares in subsidiaries at beginning of year	5,939	5,922	8,538	8,538
Impairment reversal on subsidiary	-	17	-	-
Shares in subsidiaries at end of year	**5,939**	**5,939**	**8,538**	**8,538**

Set out below are the Company's subsidiaries as at 31 December 2017.

Name of Company	**Country of Registration**	**Holding**	**Nature of Business**
Markel Syndicate Management Limited	England and Wales	100% Ordinary Shares	Underwriting Agent
Markel International Services Limited	England and Wales	100% Ordinary Shares*	Expense Services
Markel Europe Limited	England and Wales	100% Ordinary Shares*	Insurance Agent Service Company

*held by Markel Syndicate Management Limited

For all of the above the registered office is 20 Fenchurch Street, London, EC3M 3AZ.

Other financial investments

	Carrying Value		Cost	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Shares and other variable yield securities and units in unit trusts	275,176	169,727	118,531	62,433
Debt securities and other fixed income securities	764,253	884,033	764,469	884,225
Short term investments (debt securities and commercial paper)	19,994	34,993	19,994	34,993
Money market funds	20,988	3,357	20,988	3,357
Deposits with credit institutions	270,530	152,858	270,530	152,858
Total	**1,350,941**	**1,244,968**	**1,194,512**	**1,137,866**

2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Shares and other variable yield securities and units in unit trusts	274,843	333	-	275,176
Short term investments	19,994	-	-	19,994
Total	**294,837**	**333**	**-**	**295,170**

2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Shares and other variable yield securities and units in unit trusts	169,428	299	-	169,727
Short term investments	34,993	-	-	34,993
Total	**204,421**	**299**	**-**	**204,720**

The debt and other fixed income securities which are shown at amortised cost are analysed below:

	2017 $'000	**2016 $'000**
Cost	764,469	884,225
Cumulative amortisation	(216)	(192)
Amortised cost	764,253	884,033
Market Value	810,261	935,230

The redemption value of investments held at the year end was $36.8m higher (2016, $36.0m higher) than the amortised cost.

15 Debtors arising out of direct insurance operations and reinsurance operations

	Direct Insurance Operations		Reinsurance Operations	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Amounts owed by fellow Markel subsidiaries	262	-	6,293	6,253
Amounts owed by intermediaries	78,473	67,823	99,433	94,288
Total	**78,735**	**67,823**	**105,726**	**100,541**

16 Deferred taxation

The provision for deferred taxation has been made on a full provision basis. The deferred taxation asset comprises amounts arising on:

	2017 $'000	2016 $'000
Difference between accumulated depreciation and capital allowances	98	113
Other timing differences	(1,241)	(1,551)
Total liability	**(1,143)**	**(1,438)**

The movement in the deferred taxation (liability)/asset during the year is as follows:

	Deferred Tax (Liability) 2017 $'000	Pension Tax (Liability)/ Asset 2017 $'000	Total 2017 $'000	Total 2016 $'000
At beginning of year	(1,438)	535	**(903)**	**(2,646)**
Income Statement credit/(charge) - current	295	-	**295**	**(1,802)**
Movement in Statement of Comprehensive Income	-	(1,802)	**(1,802)**	**3,545**
At end of year	**(1,143)**	**(1,267)**	**(2,410)**	**(903)**

Deferred tax in respect of timing differences expected to reverse in 2018 and subsequent years has been calculated at 17% (2016, 17%). Enacted phased reductions in the standard rate of UK corporation tax from 19.25% to 17% may result in an overall adverse variance in the actual deferred tax movements during the phased reduction period. In view of the uncertainties over the period in which the timing differences will reverse due to the nature of the Company's insurance activities it is not considered meaningful to attempt to quantify the potential adverse variance. No deferred tax is recognised in respect of the pension asset.

No deferred tax asset is recognised in respect of aggregate cumulative unrelieved tax losses of $64.7m (2016, $48.4m) in the Company’s overseas branches due to the uncertainty of sufficient taxable income being generated in the branches in the foreseeable future.

17 Other debtors

	2017 $'000	2016 $'000
Amounts owed by fellow Markel subsidiaries	33,606	12,252
Current taxation	6,970	-
Other debtors	353	271
Total	**40,929**	**12,523**

18 Tangible Assets

	IT Equipment $'000	Leasehold Improvements $'000	Total Tangible Assets $'000
Cost			
At beginning of year	53	1,355	1,408
Additions in the year	-	-	-
Disposals in the year	-	-	-
At the end of the year	53	1,355	1,408
Accumulated depreciation			
At the beginning of the year	(31)	(1,303)	(1,334)
Charge for the year	(14)	(23)	(37)
At the end of the year	(45)	(1,326)	(1,371)
Net book value			
At 31 December 2017	**8**	**29**	**37**
At 31 December 2016	**22**	**52**	**74**

19 Share capital

The share capital of the Company is as follows:

Called up, allotted and fully paid

	2017 $'000	2016 $'000
26,720,259 ordinary shares of $10.00, at end of year	**267,202**	**267,202**

20 Technical provisions

The Company has considered long-tail claims, including environmental and latent injury claims, in establishing the liability for claims outstanding. Substantially all environmental and latent injury claims relate to policies written between 1971 and 1985. Latent claims cannot be estimated using traditional reserving techniques and, accordingly, the uncertainty with respect to the ultimate cost of these types of claims is greater than the uncertainty arising from other lines of business. The Company believes it has established adequate provisions for such claims, although the ultimate liability may be more or less than the reserves actually held by the Company, and considers that were future losses associated with those claims to arise, they would not have a material adverse impact on the financial position of the Company.

Under Solvency II the Company is not required to maintain an equalisation provision. Under Solvency I the Company was required to establish an equalisation provision in accordance with the requirements of INSPRU 1.4. The equalisation provision was in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims. It was required by Schedule 3 to SI 2008/410 to be included within technical provisions. This provision was removed during 2016.

	Equalisation Provision	
	2017 $'000	2016 $'000
Provision at beginning of year	-	10,954
Net transfer out during the year	-	(10,954)
Provision at end of year	**-**	**-**

	2017			2016		
Provision for claims outstanding	**Gross $'000**	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
At 1 January	1,192,447	(557,187)	635,260	1,346,600	(617,641)	728,959
Movement in provision	160,576	(5,900)	154,676	(63,530)	26,672	(36,858)
Part VII transfer	(80,414)	69,085	(11,329)	-	-	-
Movement due to foreign exchange	59,560	(6,787)	52,773	(90,623)	33,782	(56,841)
Total movement in reserves	139,722	56,398	196,120	(154,153)	60,454	(93,699)
At 31 December	**1,332,169**	**(500,789)**	**831,380**	**1,192,447**	**(557,187)**	**635,260**

	2017			2016		
Provision for unearned premiums	**Gross $'000**	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
At 1 January	186,451	(38,237)	148,214	218,165	(47,523)	170,642
Movement in provision	46,429	(4,468)	41,961	(17,373)	8,188	(9,185)
Movement due to foreign exchange	8,891	(898)	7,993	(14,341)	1,098	(13,243)
Total movement in reserves	55,320	(5,366)	49,954	(31,714)	9,286	(22,428)
At 31 December	**241,771**	**(43,603)**	**198,168**	**186,451**	**(38,237)**	**148,214**

Deferred acquisition costs	**2017 $'000**	**2016 $'000**
At 1 January	35,827	40,450
Change in deferred acquisition costs	12,336	(1,067)
Movement due to foreign exchange	1,773	(3,556)
At 31 December	**49,936**	**35,827**

On March 9, 2015, the Company completed a retrospective reinsurance transaction to cede a portfolio of policies comprised of liabilities arising from asbestos and environmental exposures that originated before 1992. The final Court hearing was held on 23 March 2017 where the Part VII transfer was granted and the transfer effective from 31 March 2017, at which point $11.3m of net reserves were transferred.

On 29 November 2017, MCH completed the acquisition of ECIC. As at the date of acquisition, the Company entered into a portfolio transfer agreement with ECIC to assume its net technical provisions. $30.8m of gross provision for claims outstanding and $6.1m of gross unearned premiums are included in both the movement in provision and closing provision in the tables above.

The following gross and net loss tables have been revalued to reflect the current year end rates of exchange.

Gross outstanding claims provision as at 31 December 2017
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	Total $'000
Estimate of cumulative claims incurred									
At end of underwriting year		82,498	93,406	94,753	192,486	147,469	146,794	329,847	
One year later		154,886	165,094	313,846	359,458	309,174	266,968		
Two years later		156,799	284,505	263,408	315,761	296,009			
Three years later		297,987	254,948	237,472	323,123				
Four years later		281,389	250,456	222,571					
Five years later		273,849	249,677						
Six years later		264,950							
Cumulative paid claims									
At end of underwriting year		(7,704)	(4,678)	(4,675)	5,631	(9,312)	(12,916)	(45,171)	
One year later		(37,027)	(32,455)	(47,036)	(52,563)	(47,817)	(44,589)		
Two years later		(61,869)	(103,993)	(81,689)	(111,967)	(100,479)			
Three years later		(149,978)	(131,459)	(106,631)	(152,138)				
Four years later		(174,077)	(167,869)	(119,036)					
Five years later		(182,108)	(186,579)						
Six years later		(191,504)							
Total outstanding claims provision per the Statement of Financial Position	**218,520**	**73,446**	**63,098**	**103,535**	**170,985**	**195,530**	**222,379**	**284,676**	**1,332,169**

Net outstanding claims provision as at 31 December 2017

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	Total $'000
Estimate of cumulative claims incurred									
At end of underwriting year		77,585	87,562	74,828	119,273	112,822	115,827	274,308	
One year later		143,414	158,379	164,524	236,615	216,887	200,095		
Two years later		135,764	170,164	147,516	202,852	193,502			
Three years later		150,565	160,075	133,275	205,870				
Four years later		146,297	156,663	127,748					
Five years later		142,828	156,034						
Six years later		142,156							
Cumulative paid claims									
At end of underwriting year		(7,458)	(4,661)	(1,709)	7,252	(8,461)	(12,904)	(44,014)	
One year later		(34,658)	(31,325)	(28,239)	(23,510)	(45,727)	(26,592)		
Two years later		(58,383)	(65,880)	(52,366)	(69,925)	(93,050)			
Three years later		(81,948)	(88,841)	(69,280)	(97,683)				
Four years later		(98,517)	(115,887)	(77,164)					
Five years later		(104,718)	(127,816)						
Six years later		(110,215)							
Total outstanding claims provision per the Statement of Financial Position	**108,200**	**31,941**	**28,218**	**50,584**	**108,187**	**100,452**	**173,503**	**230,295**	**831,380**

21 Provision for other risks and charges

	LUC Provision $'000
At beginning of year	614
Income Statement credit	(500)
Other recognised losses - foreign exchange	36
At end of year	**150**

Guarantees have been given by the Company in favour of the Prudential Assurance Company Limited and the Royal Bank of Scotland (Industrial Leasing) Limited in respect of leases granted to Market Building Limited in connection with the development of the London Underwriting Centre (“LUC”). The fire that occurred in August 1991, during the course of fitting out the LUC, gave rise to the possibility of some shortfall of rental income in the future. The Directors consider that the provision recognised at 31 December 2017 represents the best estimate of the possible expenditure required to maintain the LUC as a trading centre.

22 Creditors arising out of direct insurance operations and reinsurance operations

	Direct Insurance Operations		Reinsurance Operations	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Amounts owed to other subsidiaries	-	1,006	7,060	2,348
Amounts owed to intermediaries	21,087	8,440	29,771	27,947
Total	**21,087**	**9,446**	**36,831**	**30,295**

23 Other creditors, including taxation and social security

	2017 $'000	2016 $'000
Current taxation	-	11,144
Other creditors	12,974	24,953
Total	**12,974**	**36,097**

Balances payable to other creditors fall due for payment within one year of the reporting date.

24 Discounted claims

The claims relating to PPOs have been discounted as follows:

	Discount rates		Mean term of liabilities	
		Restated		**Restated**
Class of business	**2017**	**2016**	**2017**	**2016**
Motor	3.0%	3.0%	16.6 years	16.8 years

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

The claims provisions before discounting are as follows:

	2017 £'000	**2016 £'000**
		Restated
Total claims provisions before discounting	28,458	28,639
Reinsurers' share of total claims provisions before discounting	-	-
Net claims provisions before discounting	**28,458**	**28,639**
Discount credit	(14,004)	(14,022)
Net claims provisions post discounting	**14,454**	**14,617**

The prior year values have been restated to more accurately reflect the full discounted impact of all known and future liabilities arising from the Company's exposure to Motor casualty claims through motor treaty policies written on the 2014 and prior underwriting years. There is no impact on total claims outstanding, profit or net assets.

25 Pension Scheme

The Company contributes to a pension scheme (the "Terra Nova Insurance Company Limited Pension and Life Assurance Scheme") providing benefits based on final pensionable pay. On 11 November 2008 an agreement was signed resulting in a bulk transfer of assets and liabilities (amounting to £11.5m) from the Lloyd's Superannuation Fund ("LSF") into the Terra Nova Insurance Company Limited Pension and Life Assurance Scheme ("the Scheme"). With effect from that date, the Scheme was divided into two legally segregated sections: the "TN Fund" and the new "LSF Fund".

The contributions to this defined benefit scheme are determined by the Company with agreement of the Trustee and in conjunction with an independent qualified actuary using the attained age method.

The contribution to the Scheme for the period was £2.6m (2016, £2.6m), and was paid on behalf of the Company by MISL. The assets of the Scheme are held separately from those of the Company, being invested in listed United Kingdom and overseas equities, fixed interest securities and cash deposits. An escrow agreement has been put in place which requires the Company to make additional contributions to the LSF Fund should the Company's AM Best credit rating fall below A-.

A full actuarial valuation was carried out at 30 September 2015, which showed that the market value of the Scheme's assets was £124.1m. This actuarial valuation determined that the assets of the scheme at the valuation date represented 91% of the accrued liabilities based on the projected final pensionable salaries. This was equivalent to a deficit of £11.7m.

Following discussions with the Company and the Trustees it was agreed that the Company would pay an additional five contributions of £2.6m per annum beginning on 30 September 2016, and on that date each year through to 30 September 2020.

The Company will meet the cost of any augmentations to members' benefits as they fall due and the Company will meet the administrative expenses of operating the Scheme and the Pension Protection Fund Levy. The Scheme is closed to new members. The Company recognises that as a closed scheme the current service cost will increase as the members of the Scheme approach retirement but the valuation has been undertaken on an attained age basis to limit the volatility of the funding rate.

On 1 April 2012, the Company closed the Scheme to future service accrual. Those employees affected were invited to join the Markel International Pension Scheme. As the Company does not expect to recover any surplus through either reduced contributions or a refund from the plans, the Company has elected not to recognise any surplus on the Scheme at the reporting date. At 31 December 2017, there was a net surplus of $6.2m on the Scheme that has not been recognised in the accounts (2016, net deficit of $2.4m). Any deficit on the Scheme will be recognised in full.

An independent actuarial FRS 17 valuation of both the TN Fund and the LSF Fund was carried out as at 31 December 2017 using the projected unit method.

The principal assumptions used by the actuary were:

	2017	2016	2015
Discount rate	2.55%	2.70%	3.95%
Inflation assumption	3.20%	3.25%	3.15%
Deferred pension revaluation	2.25%	2.25%	2.15%
Salary increase assumption	2.95%	3.00%	2.90%
Pension increase assumption	3.15%	3.20%	3.10%

The assumed life expectancies on retirement at age 65 are:

	LSF Fund 2017	TN Fund 2017	LSF Fund 2016	TN Fund 2016
Current pensioners:				
Men	24.5	25.7	24.7	25.3
Women	26.8	27.3	26.6	27.2
Future pensioners:				
Men	26.9	27.5	26.8	27.4
Women	29.1	29.6	28.9	29.5

The assets in the Scheme and the expected rate of return were:

	LSF Fund 2017 £'000	TN Fund 2017 £'000	LSF Fund 2016 £'000	TN Fund 2016 £'000
Equities	9,314	50,067	7,513	40,456
Debt securities	7,492	46,918	7,626	46,710
Corporate bonds	9,840	18,537	9,424	20,157
Other	2,469	9,382	2,273	8,636
Cash	-	139	-	6
Total market value of assets	29,115	125,043	26,836	115,965
Actuarial value of liability	(28,400)	(120,196)	(27,156)	(118,063)
Surplus/(deficit) in the Scheme	715	4,847	(320)	(2,098)
Related deferred tax (liability)/asset	(122)	(824)	58	378
Limit on pension asset recognition	(593)	(4,023)	-	-
Net Pension Liability	**-**	**-**	**(262)**	**(1,720)**

The equity and bond investments which are held in Scheme assets are quoted and are valued at the current bid price.

Reconciliation of present value of Scheme liabilities	**Total 2017 £'000**	**LSF Fund 2017 £'000**	**TN Fund 2017 £'000**	**Total 2016 £'000**	**LSF Fund 2016 £'000**	**TN Fund 2016 £'000**
At beginning of year	**145,219**	27,156	118,063	**114,869**	21,077	93,792
Interest cost	**3,862**	728	3,134	**4,489**	822	3,667
Benefits paid	**(4,375)**	(402)	(3,973)	**(2,443)**	(526)	(1,917)
Actuarial gain	**3,890**	918	2,972	**28,304**	5,783	22,521
At end of year	**148,596**	**28,400**	**120,196**	**145,219**	**27,156**	**118,063**

Reconciliation of fair value of Scheme assets	**Total 2017 £'000**	**LSF Fund 2017 £'000**	**TN Fund 2017 £'000**	**Total 2016 £'000**	**LSF Fund 2016 £'000**	**TN Fund 2016 £'000**
At beginning of year	**142,801**	26,836	115,965	**126,168**	24,046	102,122
Expected return on Scheme assets	**3,814**	722	3,092	**4,962**	944	4,018
Employer contributions	**2,630**	430	2,200	**2,630**	430	2,200
Benefits paid	**(4,375)**	(402)	(3,973)	**(2,443)**	(526)	(1,917)
Actuarial gain	**9,288**	1,529	7,759	**11,484**	1,942	9,542
At end of year	**154,158**	**29,115**	**125,043**	**142,801**	**26,836**	**115,965**

Scheme assets do not include any of the Company's own financial instruments or any property occupied by the Company.

The expected return on Scheme assets is determined by considering returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected returns on equities reflect the long term real rates of return experienced in the market. The actual return on Scheme assets in the year was a gain of £13.1m (2016, gain of £16.4m)

Movement in surplus/(deficit) during the year	Total 2017 £'000	LSF Fund 2017 £'000	TN Fund 2017 £'000	Total 2016 £'000	LSF Fund 2016 £'000	TN Fund 2016 £'000
(Deficit)/surplus in the Scheme at the beginning of the year	**(2,418)**	(320)	(2,098)	**11,299**	2,969	8,330
Movement in the year:						
Employer contributions	**2,630**	430	2,200	**2,630**	430	2,200
Net return on assets	**(48)**	(6)	(42)	**473**	122	351
Actuarial gain/(loss)	**5,398**	611	4,787	**(16,820)**	(3,841)	(12,979)
Surplus/(deficit) in the Scheme at the end of year	**5,562**	**715**	**4,847**	**(2,418)**	**(320)**	**(2,098)**

Movement in surplus/(deficit) during the year	Total 2017 $'000	LSF Fund 2017 $'000	TN Fund 2017 $'000	Total 2016 $'000	LSF Fund 2016 $'000	TN Fund 2016 $'000
Surplus/(deficit) in the Scheme at the end of year	**7,453**	958	6,495	**(2,973)**	(393)	(2,580)
Related deferred tax (liability)/asset	**(1,267)**	(163)	(1,104)	**535**	71	464
Limit on pension asset recognition	**(6,186)**	(795)	(5,391)	**-**	-	-
Pension Liability	**-**	**-**	**-**	**(2,438)**	**(322)**	**(2,116)**

The movement disclosed in the Statement of Comprehensive Income shows the limit on pension asset recognition is $6.2m (2016, $Nilm as the pension liability was recognised in full). The actuarial gain recognised on the pension scheme is £5.4m, or $7.2m (2016, loss of £16.8m or $20.7m). The movement on deferred tax relating to the actuarial loss is a debit of $1.8m (2016, credit of $3.5m).

Analysis of amount recognised in Statement of Comprehensive Income	Total 2017 £'000	LSF Fund 2017 £'000	TN Fund 2017 £'000	Total 2016 £'000	LSF Fund 2016 £'000	TN Fund 2016 £'000
Actual return less expected return on Scheme assets	**9,288**	1,529	7,759	**11,484**	1,942	9,542
Experience gains on Scheme liabilities	**-**	-	-	**2,961**	386	2,575
Changes in assumptions underlying the Scheme liabilities	**(3,938)**	(924)	(3,014)	**(30,792)**	(6,047)	(24,745)
Movement in year on limit on pension asset recognition	**(4,616)**	(593)	(4,023)	**11,148**	2,929	8,219
Gain/(loss) recognised in Statement of Comprehensive Income	**734**	**12**	**722**	**(5,199)**	**(790)**	**(4,409)**

	Total 2017 $'000	LSF Fund 2017 $'000	TN Fund 2017 $'000	Total 2016 $'000	LSF Fund 2016 $'000	TN Fund 2016 $'000
Gain/(loss) recognised in Statement of Comprehensive Income	**984**	**16**	**968**	**(6,394)**	**(972)**	**(5,422)**

The cumulative amount of loss recognised in the Statement of Comprehensive Income is £20.4m (2016, £21.1m).

Analysis of net return on Pension Scheme	**2017 £'000**	**2016 £'000**
Expected return on Pension Scheme assets	3,814	4,962
Interest on pension liabilities	(3,862)	(4,489)
Net return	**(48)**	**473**

History of defined benefit assets and obligations and experience gains and losses	**2017 £'000**	**2016 £'000**	**2015 £'000**	**2014 £'000**	**2013 £'000**
Difference between expected and actual return on schemes:					
Amount	**9,288**	**11,484**	**(3,257)**	**8,092**	**8,224**
Percentage of scheme assets	6%	8%	(3)%	6%	7%
Experience losses/(gains) on scheme liabilities:					
Amount	**-**	**(2,961)**	**34**	**20**	**34**
Percentage of scheme liabilities	0%	2%	0%	0%	0%
History of defined benefit assets and obligations					
Defined benefit obligations	148,596	145,219	114,869	118,947	98,793
Fair value of scheme assets	154,158	142,801	126,168	129,103	114,811
(Surplus)/deficit	**(5,562)**	**2,418**	**(11,299)**	**(10,156)**	**(16,018)**

The movement in the deferred taxation (liability)/asset on the Pension Scheme during the year is as follows:

	2017 \$'000	**2016 \$'000**
At beginning of year	**535**	**(3,010)**
Tax credit taken to Statement of Comprehensive Income	(1,802)	3,545
At end of year	**(1,267)**	**535**

26 Contingencies and capital commitments

a) The Company, as the leaseholder, had the following commitments to pay rentals, analysed according to the period in which the lease expires:

	2017 \$'000	**2016 \$'000**
Expiring within one year	1,579	1,380
Expiring between one and five years	5,205	2,482
Expiring after more than five years	3,877	2,550
	10,661	**6,412**

Rental costs in the year are paid for by MISL. For a full breakdown of rental costs, please refer to the MISL Annual Report and Financial Statements.

b) The Company has outstanding liabilities, covered by certain assets, in respect of outstanding letters of credit amounting to $14.0m (2016, $19.5m).

c) Certain investments are deposited in the UK and overseas, in accordance with local laws and regulations, as security for policyholders.

d) An escrow agreement was put in place in connection with the LSF Fund section of the Terra Nova

Insurance Company Limited Pension and Life Assurance Scheme, whereby the Company is required to make additional contributions to the LSF Fund Section should the AM best credit rating of the Company fall below A-.

e) The Company has a surplus of funds of $6.2m (2016, no surplus) in respect of the Terra Nova Insurance Company Limited Pension and Life Assurance Scheme at 31 December 2017.

27 Related party information

As a qualifying entity, the Company has taken advantage of the exemption not to disclose transactions with other wholly owned subsidiaries of Markel.

There were no transactions with related third parties during the year.

28 Ultimate holding company

The Company's immediate parent company is Markel Capital Holdings Limited. The Company's ultimate holding company is Markel Corporation, which is incorporated in the USA. Copies of the ultimate holding company's consolidated Financial Statements may be obtained from 4521 Highwoods Parkway, Glen Allen, Virginia 23060, USA. The website address is www.markelcorp.com.

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