Best's Rating Report

MARKEL INTERNATIONAL INSURANCE COMPANY LIMITED

London EC3A 2EA, United Kingdom

Financial Strength Rating
A.M. BEST
A Excellent

A

Operating Company Non-Life

Ultimate Parent: Markel Corporation

MARKEL INTERNATIONAL INSURANCE COMPANY LIMITED

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AMB#: 085173 **AIIN#: AA-1121425**
Ultimate Parent#: 058405

BEST'S CREDIT RATING

Best's Financial Strength Rating: A **Outlook**: Stable
Best's Financial Size Category: XIV

RATING RATIONALE

Rating Rationale: The rating of the Markel North America operations has been extended to Markel International Insurance Company Limited (MIICL) based on MIICL's strategic importance to the Markel group. MIICL and Lloyd's Syndicate 3000 account for over one third of the Markel group's gross premium income and provide the group with access to UK, London market and international business. In addition, MIICL benefits from the explicit as well as implicit support of its ultimate parent if and when needed.

The following text is derived from A.M. Best's Credit Report on Markel North America Insurance Group (AMB# 003191).

The rating reflects Markel North America Insurance Group's (Markel) well-established market position as one of the leading excess and surplus lines organizations in the United States, its historically profitable operating performance, solid capitalization and ability to attract growth after many years of an extended soft market cycle. These positive attributes are partially offset by the group's elevated underwriting leverage, above average common stock leverage, high expense base and the challenges presented by low new money yields and the prevailing economic conditions.

Markel's specialty orientation and its commitment to profitability remains a key attribute. As a writer of specialty admitted and excess and surplus lines insurance, Markel serves a variety of niche markets, specializing in unique hard to place risks that are driven by factors that often extend beyond price. In addition to this, the group has had a history of producing excellent operating results over the past decade through very conservative loss reserving practices. Doing so has allowed Markel the ability to drive consistently favorable accident year loss reserve development. Markel's solid cash flow and equity appreciation via realized capital gains are also very favorable attributes. Operating earnings over the long term have provided the financial ability for the group to pay dividends, in spite of the restrictive effect of those payments on surplus appreciation. Traditionally strong operating cash flows have led to Markel's adequate liquidity position that is enhanced by the considerable liquidity at the parent company.

The group has historically operated at a higher underwriting leverage position than the average of the surplus lines composite. Both net premium and liability leverage has exceeded that of the composite, driven by its conservative reserving philosophy and payment of stockholder dividends to maximize financial flexibility at the parent company. Somewhat concerning is Markel's above average common stock leverage. This concern, however, is offset by the diversification among investments, its successful track record and management's long-held investment strategy to protect and build shareholder value. A.M. Best will continue to closely monitor underwriting and investment performance of the group's member companies, and of the group itself, to assure that capital strength remains supportive of the rating.

Potential upward movement in the rating could result from improved performance measures and operating conditions as well as sustained solid risk-adjusted capitalization. Downward movement could result from a material decline in capitalization, negative trends in claim frequency or severity that could materially impair underwriting results, a significant decline in equity capital markets and its impact on the company's investment portfolio and capitalization, as well as an unforeseen increase in operating expenses.

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
03/21/14	A	06/30/10	A
11/13/12	A	07/30/09	A
09/07/11	A		

BUSINESS PROFILE

Markel International Insurance Company Limited (MIICL) and Lloyd's Syndicate 3000 are the two underwriting entities of Markel International (MINT), the UK and London market operation of Markel Corporation (Markel). In 2013, MINT accounted for over 23% of the consolidated gross written premium of Markel, the holding company of a U.S. excess and surplus lines group.

A major development for Markel was the completion in April 2013 of the acquisition of Alterra Capital Holdings Limited (Bermuda) - a global specialty insurance and reinsurance business. From this acquisition MINT acquired the business of Alterra Europe, Alterra Resseguradora do Brasil (Brazil) and Lloyd's Syndicate 1400. The process of integrating these operations with those of MINT began during 2013 and is expected to be completed in 2014. Three new divisions have been created (casualty treaty, Latin America and Zurich) and Syndicate 1400 is to be closed into Markel's Syndicate 3000 in due course.

Alterra Resseguradora do Brasil (renamed Markel Resseguradora do Brasil) is to operate as a local company but otherwise MIICL and syndicate 3000 will continue as the two main entities within MINT, writing business on a divisional basis. Of the new divisions, the Latin America division comprises the former Alterra offices in Bogota, Buenos Aires and Rio de Janeiro and so produces business for MIICL, syndicate 3000 and Markel Re do Brasil while the Zurich division writes only syndicate business, previously for syndicate 1400 and now for syndicate 3000. With the exception of the retail division, which writes all of its business for MIICL, the existing MINT divisions and the new casualty treaty division write business for both the company and the syndicate. In addition, there are branch offices in Spain, the Netherlands and Germany that write business only for MIICL and a branch in Sweden that writes business for MIICL and the syndicate.

The largest divisions from which MIICL derived its business in 2013 were the marine and retail divisions, which represented respectively 28% and 19% of the company's gross written premiums (GWP). The specialty division contributed 18% of GWP and the professional and financial risks division 14%, while a further 6% came from the trade credit division. The balance of the account (15%) was derived from the equine division and the four international branches.

The professional and financial risks (PFR) division provides wholesale professional indemnity and directors' and officers' insurance. The professional indemnity (PI) account covers four professional classes: miscellaneous professionals and consultants, construction professionals, financial service professionals and professional practices. The directors' and officers' liability business (D&O) is written for public, private and non-profit companies of all sizes on either an individual or blanket basis. Most business is written in the UK with the remainder primarily written in Europe. In 2014, little growth is anticipated while market conditions remain challenging.

The retail division has seven branch offices across the UK, which offer PI, D&O liability, employment practices liability and social welfare property/liability coverage for small to medium enterprises (SMEs). Premium rates in the competitive UK SME market remain weak and growth opportunities are limited. Nevertheless, an increase in retail premium is anticipated in 2014, driven by modest growth in the social welfare sector.

MIICL also writes PI and D&O liability through offices in Munich (a joint venture acquired in early 2012), Rotterdam (opened in 2011) and Stockholm (launched in 2008). Additionally, Rotterdam has a focus on engineering insurance and Stockholm provides the company with fine art, property and marine business.

The specialty division's account comprises property treaty reinsurance including excess of loss, stop loss, aggregate excess and proportional coverage. A significant proportion of the division's excess of loss catastrophe and per risk treaty business originates in the U.S. In addition, the division offers coverage for a number of specialist classes, predominately outside the U.S., including financial institutions, contingency and other special risks. Modest growth in premium income is expected in 2014, with increases in property treaty, accident and health and casualty treaty business in particular.

The marine and energy account comprises cargo, energy, hull, liability, war and specie risks. Premium written by the division showed significant growth in 2013, driven by a substantial increase in energy business.

The trade credit division began writing during 2010 and contributed a modest amount of premium to MIICL. The division has shown strong growth every year but premium income is expected to stabilise in 2014.

A divisional restructuring in 2011 saw the creation of the MGA division, which included delegated property and delegated liability business written on a worldwide basis. The property account provided cover ranging from fire to catastrophe perils such as earthquake and windstorm, and the liability account covered commercial property, homeowners, inland marine, auto physical damage and commercial general liability. However, although this division was able to meet its premium target during 2012, concerns over profitability led to the division's business being placed in run-off with effect from 1 July 2012.

In October 2013 Markel announced that it was to acquire Abbey Protection plc, a specialist provider of legal and taxation related professional fees insurance products and services for UK SMEs. Abbey Protection continues to operate under its own brand as a separate division within MIICL, extending MIICL's product range in the UK retail market.

RISK MANAGEMENT

Risk management is firmly embedded throughout MINT and is a key part of the business management framework. The risk management process is controlled through a risk register and risk appetite cascades from MINT's corporate goals. Solvency II principles under the current regulatory regime are used to manage MIICL's capital requirements and to ensure it has the financial strength to support business growth. The company's risk strategy is reviewed at least annually.

OPERATING PERFORMANCE

Operating Results: MIICL produced an excellent operating performance in 2013, reporting a profit before tax and equalisation reserve movement of USD 150.4 million (2012: USD 110.8 million). This result was supported by a reserve release of USD 58.1 million (2012: USD 78.8 million).

Underwriting Results: MIICL has a strong historical underwriting performance, demonstrated by a five-year (2009-2013) average combined ratio of 88%. This performance is after taking account of the exceptionally high losses in 2011, which together added 15 percentage points to the combined ratio for that year.

In 2014, a combined ratio below 95% is anticipated (2013: 86%), assuming another year with a normal level of catastrophe experience. However, underwriting margins on business written by the company's core UK retail and professional and financial risks divisions continue to be squeezed as market conditions remain challenging. Prior year reserves are expected to continue to develop favourably.

Investment Results: Investment policy and trading guidelines are set by the MIICL board. Investments are managed by Markel Gayner Asset Management Corporation, the subsidiary of Markel that manages all group investments. MIICL's investment portfolio is managed with a focus on long-term returns, ignoring short-term volatility.

As global investment market conditions improved in 2009 and subsequent years, the company initially reduced the proportion of the portfolio being held in cash and short term investments, allowing the proportion of high-quality fixed income securities to increase to 76% of total investments as at year-end 2011. In 2012 this trend was reversed, as bond markets became less favourable, and the proportion of fixed income securities fell to 65% with both equity and cash investments increasing. Equities represent a relatively high proportion of total investments (over 20% as at year-end 2013) and have contributed to historical earnings volatility.

Best's Rating Report

In 2013, MIICL reported an excellent investment return (including realised and unrealised gains) of 8.9% (2012: 5.9%). The return on fixed income securities was good, but the equity portfolio reported a strong level of unrealised gains at the year end.

BALANCE SHEET STRENGTH

Capitalization: MIICL's stand-alone risk-adjusted capitalisation remains excellent in spite of dividend payments to its parent of USD 50 million in both 2013 and 2012, following a dividend of USD 125 million in 2011. Solid prospective performance is expected to support planned dividend payments.

Financial flexibility is enhanced by the support of the immediate and ultimate parent companies, which have contributed capital of approximately USD 200 million since acquiring the company, the last contribution being USD 15 million during 2008, to support MIICL's underwriting.

Loss Reserves: In A.M. Best's opinion, MIICL has reserved conservatively for business written since its acquisition by Markel. An additional margin is established over internal actuaries' initial best estimate, which is likely to enable MIICL to make modest prospective reserve releases. In-house actuaries conduct a full reserving analysis quarterly, and the results are presented to both MINT and Markel Corporation management. In addition, MINT's reinsurance and special projects team holds quarterly meetings to cover all aspects of claims run off and progress on reinsurance recoveries. Reserves are reviewed annually by external actuaries.

A.M. Best believes the risk of further reserve deterioration relating to business written prior to 2002 continues to diminish, as the level of technical reserves for these years reduces and development stabilises. As at year-end 2013 reserves for risks written prior to 2002 represented approximately 25% of net reserves, down from 71% as at year-end 2004.

Liquidity: MIICL has a highly liquid investment portfolio with assets invested principally in cash and easily marketable bonds. The bond portfolio has an average duration of approximately 4 years. Credit quality is good, with 90% of bonds rated "A" or above as at year-end 2013. Euro denominated assets represented 7% of total investments and the proportion of equity holdings was over 20%.

An independent audit of the company's affairs through December 31, 2013, was conducted by KPMG LLP.

Summarized Accounts as of December 31, 2013

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

STATEMENT OF INCOME

	12/31/2013 USD(000)	12/31/2012 USD(000)
Technical account:		
Direct premiums	228,018	185,517
Reinsurance premiums assumed	114,214	100,574
Gross premiums written	342,232	286,091
Reinsurance ceded	77,439	30,319
Net premiums written	264,793	255,772
Increase/(decrease) in gross unearned premiums	9,568	8,103
Reinsurers share unearned premiums	13,986	-457
Net premiums earned	269,211	247,212
Total underwriting income	269,211	247,212
Net claims paid	133,856	132,218
Net increase/(decrease) in claims provision	-11,645	-31,802
Net claims incurred	122,211	100,416
Management expenses	55,843	58,865
Acquisition expenses	50,833	46,173
Net operating expenses	106,676	105,038
Total underwriting expenses	228,887	205,454
Balance on technical account	40,324	41,758

	12/31/2013 USD(000)	12/31/2012 USD(000)
Combined technical account:		
Direct premiums	228,018	185,517
Reinsurance premiums assumed	114,214	100,574
Gross premiums written	342,232	286,091
Reinsurance ceded	77,439	30,319
Net premiums written	264,793	255,772
Increase/(decrease) in gross unearned premiums	9,568	8,103
Increase/(decrease) in reinsurers share unearned premiums	13,986	-457
Net premiums earned	269,211	247,212
Total revenue	269,211	247,212
Net claims paid	133,856	132,218
Net increase/(decrease) in claims provision	-11,645	-31,802
Net claims incurred	122,211	100,416
Management expenses	55,843	58,865
Acquisition expenses	50,833	46,173
Net operating expenses	106,676	105,038
Total underwriting expenses	228,887	205,454
Balance on combined technical account	40,324	41,758
Non-technical account:		
Net investment income	35,304	43,037
Realised capital gains/(losses)	9,653	3,145
Unrealised capital gains/(losses)	64,961	21,789
Exchange gains/(losses)	146	1,081
Profit/(loss) before tax	150,388	110,810
Taxation	32,220	26,098
Profit/(loss) after tax	118,168	84,712
Dividend to shareholders	50,000	50,000
Increase/(decrease) in the equalisation provision	8,185	2,140
Exceptional income/(expense)	-5,401	-3,460
Retained profit/(loss) for the financial year	54,582	29,112
Retained profit/(loss) brought forward	111,677	82,565
Retained profit/(loss) carried forward	166,259	111,677

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2013 USD(000)	12/31/2012 USD(000)
Capital & surplus brought forward	436,866	407,754
Profit or loss for the year	109,983	82,572
Dividend to shareholders	-50,000	-50,000
Other changes	-5,401	-3,460
Total change in capital & surplus	54,582	29,112
Capital & surplus carried forward	491,448	436,866

ASSETS

	12/31/2013 USD(000)	12/31/2013 % of total	12/31/2012 USD(000)
Cash & deposits with credit institutions	270,510	17.7	163,199
Bonds & other fixed interest securities	663,250	43.3	761,333
Shares & other variable interest instruments	344,485	22.5	243,824
Liquid assets	1,278,245	83.5	1,168,356
Inter-company investments	7,381	0.5	7,347
Total investments	1,285,626	84.0	1,175,703
Reins. sh. of tech. reserves - unearned premiums	26,942	1.8	12,836
Reinsurers' share of technical reserves - claims	107,489	7.0	68,891
Total reinsurers share of technical reserves	134,431	8.8	81,727
Deposits with ceding companies	516	0.0	501
Insurance/reinsurance debtors	77,443	5.1	40,445
Inter-company debtors	4,727	0.3	8,802
Other debtors	1,974	0.1	149
Total debtors	84,144	5.5	49,396
Prepayments & accrued income	26,367	1.7	31,484
Total assets	1,531,084	100.0	1,338,811

LIABILITIES

	12/31/2013 USD(000)	12/31/2013 % of total	12/31/2012 USD(000)
Capital	226,876	14.8	226,876
Paid-up capital	226,876	14.8	226,876
Non-distributable reserves	98,313	6.4	98,313
Claims equalisation reserve	17,784	1.2	9,599
Retained earnings	166,259	10.9	111,677
Capital & surplus	509,232	33.3	446,465
Gross provision for unearned premiums	124,018	8.1	113,209
Gross provision for outstanding claims	797,237	52.1	764,289
Total gross technical reserves	921,255	60.2	877,498
Insurance/reinsurance creditors	29,657	1.9	11,473
Inter-company creditors	27,534	1.8	...
Other creditors	41,351	2.7	593
Total creditors	98,542	6.4	12,066
Accruals & deferred income	...	...	234
Other liabilities	2,055	0.1	2,548
Total liabilities & surplus	1,531,084	100.0	1,338,811

MANAGEMENT

Markel Resseguradora do Brasil (the former Alterra Resseguradora do Brasil) operates as a local company but otherwise MIICL and syndicate 3000 continue as the two main entities within MINT, operating under a single management structure. There is no internal distinction between company and syndicate business. With the exception of the retail division (MIICL only), each underwriter in each division has the ability to use either MIICL or syndicate paper. However, business written through Elliott Special Risks (a leading managing general agent in Canada, acquired by MINT in 2009), Lloyd's Singapore office and the Zurich office acquired through Alterra is written on behalf of the syndicate only.

Officers: Secretary, A. J. Bailey.

Directors: J. W. Brazil, S. M. Carroll, A. J. Davies, P. H. Jenks, N. Line, I. Marshall, R. Snedden, W. D. Stovin.

ANALYSIS OF GROSS PREMIUMS WRITTEN

	USD (000) 2013	USD (000) 2012	USD (000) 2011	USD (000) 2010	USD (000) 2009
Fire	15,772	19,811	16,948	19,932	19,932
Liability	135,092	124,197	129,144	126,766	134,610
Marine, aviation & trans	44,127	31,303	28,808	26,848	25,769
Other classes	33,027	10,206	10,782	6,091	2,625
Reinsurance	114,214	100,574	81,984	46,321	34,811
Total non-life	342,232	286,091	267,666	225,958	217,747

REINSURANCE

MIICL's reinsurance programme is placed with a panel of high quality reinsurers. In line with Markel group guidelines, reinsurers are generally required to maintain a financial strength rating of at least "A", a surplus of at least USD 500 million, and provide collateral for recoverables in excess of individually established amounts.

MIICL's premium retention rate has been stable for several years at approximately 90% of GPW. However, the company entered into a new marine quota share arrangement with Markel Bermuda Limited with effect from the 2013 underwriting year, which has reduced the retention rate to 77%.

The Markel group purchases a joint catastrophe programme for non-marine property exposures covering all group entities. This protects MIICL's delegated and open market property accounts.

GEOGRAPHICAL DISTRIBUTION OF PREMIUMS WRITTEN

	USD (000) 12/31/2013 Gross	12/31/2013 % of total	USD (000) 12/31/2012 Gross
Other Europe	95,725	28.0	58,440
United Kingdom	139,658	40.8	116,999
Total Europe	235,383	68.8	175,439
Canada	1,112	0.3	1,238
United States	40,297	11.8	35,352
Total North America	41,409	12.1	36,590
Other World-Wide	65,440	19.1	74,062
Total	342,232	100.0	286,091

BALANCE SHEET ITEMS

	USD (000) 2013	USD (000) 2012	USD (000) 2011	USD (000) 2010	USD (000) 2009
Liquid assets	1,278,245	1,168,356	1,109,727	1,178,758	1,111,784
Total investments	1,285,626	1,175,703	1,117,985	1,187,214	1,120,964
Total assets	1,531,084	1,338,811	1,310,969	1,397,006	1,364,991
Total gross technical reserves	921,255	877,498	888,556	860,917	907,337
Net technical reserves	786,824	795,771	805,011	768,511	803,252
Total liabilities	1,021,852	892,346	895,756	861,348	915,072
Capital & surplus	509,232	446,465	415,213	535,658	449,919

INCOME STATEMENT ITEMS

	USD (000) 2013	USD (000) 2012	USD (000) 2011	USD (000) 2010	USD (000) 2009
Gross premiums written	342,232	286,091	267,666	225,958	217,747
Net premiums written	264,793	255,772	237,151	206,546	194,725
Balance on technical account(s)	40,324	41,758	-18,815	45,059	25,684
Profit/(loss) before tax	150,388	110,810	21,480	115,455	94,739
Profit/(loss) after tax	118,168	84,712	13,716	84,508	84,449

LIQUIDITY RATIOS (%)

	2013	2012	2011	2010	2009
Total debtors to total assets	5.5	3.7	5.4	5.5	7.6
Liquid assets to net technical reserves	162.5	146.8	137.9	153.4	138.4
Liquid assets to total liabilities	125.1	130.9	123.9	136.9	121.5
Total investments to total liabilities	125.8	131.8	124.8	137.8	122.5

Best's Rating Report

LEVERAGE RATIOS (%)

	2013	2012	2011	2010	2009
Net premiums written to capital & surplus	52.0	57.3	57.1	38.6	43.3
Net technical reserves to capital & surplus	154.5	178.2	193.9	143.5	178.5
Gross premiums written to capital & surplus	67.2	64.1	64.5	42.2	48.4
Gross technical reserves to capital & surplus	180.9	196.5	214.0	160.7	201.7
Total debtors to capital & surplus	16.5	11.1	17.2	14.3	23.0
Total liabilities to capital & surplus	200.7	199.9	215.7	160.8	203.4

PROFITABILITY RATIOS (%)

	2013	2012	2011	2010	2009
Loss ratio	45.4	40.6	67.9	39.6	53.0
Operating expense ratio	40.3	41.1	38.3	36.7	36.8
Combined ratio	85.7	81.7	106.2	76.3	89.9
Net investment income ratio	13.1	17.4	19.6	22.5	18.1
Operating ratio	72.6	64.3	86.6	53.8	71.8
Return on net premiums written	44.6	33.1	5.8	40.9	43.4
Return on total assets	7.9	6.1	0.3	6.2	7.1
Return on capital & surplus	23.6	18.9	1.0	17.4	23.2