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Report & Financial Statements

Syndicate 4020

Contents

Directors and administration

Managing agent

Ark Syndicate Management Limited

Directors

I Beaton	(Chief Executive)
N Bonnar	
N Deshpande	
D Foreman	(Chairman)
P McIntosh	
R Oakes	(Non-executive)
N Smith	
V Southey	(Non-executive)
C Watson	(Non-executive)

Company secretary

J Masson

Managing agent's registered office

30 Fenchurch Avenue
London
EC3M 5AD

Managing agent's company registration number

05887810

Syndicate information

Active underwriter

N Bonnar

Bankers

Lloyds TSB Bank plc
Citibank NA
Royal Bank of Canada

Investment managers

Conning Asset Management Limited
55 King William Street
London
EC4R 9AD

Registered auditors

KPMG LLP
15 Canada Square
London
E14 5GL

The directors of the managing agent present their report and accounts for the 2012 year of account ("YOA") of Syndicate 4020 ("the Syndicate") as closed at 31 December 2014 and their annual report and accounts for the year to 31 December 2014.

Principal activity and review of the business

The principal activity of the Syndicate is the underwriting of direct and reinsurance business in the Lloyd's market. Gross written premium income by class of business for the year was as follows:

	2014 YOA Estimate £'000	2013 YOA Estimate £'000	2012 YOA Closed £'000	2014 Cal year £'000	2013 Cal year £'000
Accident & Health	35,194	36,798	39,387	35,093	38,419
Cargo & Specie	11,695	10,752	11,889	12,091	11,549
Casualty Reinsurance	11,866	18,361	24,069	11,850	17,445
Energy – Upstream	33,512	35,197	41,732	31,196	35,805
Liability – Marine & Energy	7,080	7,805	9,032	7,491	9,017
Marine Hull	11,377	9,509	10,751	9,895	10,017
Property Reinsurance	31,039	32,330	44,491	29,975	34,999
Specialty Programmes	73,641	70,191	60,460	84,629	69,792
Specialty Reinsurance	12,103	12,265	11,952	11,742	12,979
War, Terrorism and Political Risk	29,859	31,330	29,895	29,216	33,906
Worldwide Property – Direct and Facultative	15,915	11,219	12,813	14,201	11,618
Worldwide Property – Programmes	19,128	19,223	23,305	19,298	19,071
Contingency	5,881	6,155	5,407	6,338	6,053
Property Treaty	-	16,243	19,422	238	16,779
Fine Art & Specie	7,935	8,057	7,571	8,021	7,898
Package Programmes	24,443	23,018	-	24,109	23,707
	330,668	348,453	352,176	335,383	359,054

The managing agent of the Syndicate is Ark Syndicate Management Limited ("ASML"), a company incorporated in the UK. ASML also manages the affairs of Syndicate 6105 which is supported by traditional Lloyd's Names' capital and has written a quota share of the 2014, 2013 and 2012 YOA of the Syndicate. On 20 May 2014, Ark Insurance Holdings Limited ("AIHL") bought the entire share capital of Group Ark Insurance Holdings Limited ("GAIHL") and as a result is the ultimate parent company of ASML.

Set out below is a brief description of each class of business.

Class of business	Description
Casualty Reinsurance – US	Predominantly Medical Malpractice, Professional Liability and some General Liability.
Property Reinsurance	Predominantly non-proportional, balanced between US and Rest of World ("ROW") exposures.
Specialty Reinsurance	Consists of Aviation and Specialty reinsurance, including crop and satellite. Marine is no longer written.
Energy Upstream	Insurance of exploration and production property (on and offshore), control of well, removal of wreck, business interruption, construction and renewable energy from a broad geographic spread.

Principal activity and review of the business (continued)

Class of business	Description
Marine & Energy Liabilities	Marine includes the reinsurance of the International Group of P&I Clubs. Energy is only offered in conjunction with Upstream Energy packages.
Marine Hull	Insurance of low profile, smaller fleet business and specialised tonnage, with some vessel construction, marine property and marine war.
Cargo & Specie	Cargo is made up of general cargo transit and storage as well as higher value and more complex risks such as satellites, heavy lift, tows and project cargo. Specie includes fine art, metals, securities and vault risk written on an excess basis.
Property D&F	Mostly low fire hazard occupancies, avoiding higher risk exposed classes such as mining, mineral processing and other heavy industries.
Property Programmes	US and Canadian binding authorities, avoiding middle market / larger commercial property accounts which are highly competitive.
Aviation War & Terror	Aviation War consists of airline hull war and excess AV52. Terror is primarily pure Terrorism physical damage and business interruption, with a small amount of broad-form political violence, including war on land.
Political Risk	Focus is contract frustration and confiscation / expropriation. War on land is also written. Peak exposures are in emerging countries and include China, Ivory Coast, Angola and Cameroon.
Accident & Health	Includes a spread of exposure across war, key man, disability, credit card personal accident insurance and reinsurance catastrophe.
Specialty Programmes	There are three parts - Professional liability, Contingency and Crisis management. The largest is Professional liability which includes architects and engineers, insurance professionals and real estate agents E&O, Allied Health, Cyber Liability and Miscellaneous E&O.
Contingency	Predominantly short tail with event cancellation the largest part.
Fine Art & Specie	Includes jewellers block, cash in transit, general specie and fine art written both primary and excess.Mostly Fine Art and General Specie, with some Cash in Transit and Jewellers Block.
Package Programmes	Mostly Ark-led US binding authorities. Balanced between Property and Commercial General Liability. Target risks are small commercial low-medium hazard occupancy.

Underwriting performance - YOA

2012 YOA

The Syndicate YOA has been closed with a profit of £ 65.6 m after all standard personal expenses, equivalent to a profit on stamp capacity of 16.9%. This includes an improvement on the RITC brought forward of £10.5m. Loss estimates for the New Zealand earthquakes have deteriorated in the year, but the impact has been softened by small improvements across other major losses impacting these years such as Deepwater Horizon, the Japanese earthquake and tsunami, the Thailand Floods and Super Storm Sandy.

2013 and 2014 YOA

	2014 YOA	2013 YOA
Capacity	£340.0m	£381.0m
Forecast Results (% of capacity)	Na	3.5%-8.5%

The 2013 YOA is forecast at the 24 month stage to produce an adequate return on stamp capacity. The aviation war account has been impacted by a number of losses in 2014 including Malaysia Airlines flight MH370 which was reported missing in March, the destruction of aircraft at Tripoli airport in July and the downing of Malaysia Airlines flight MH17 over Ukraine in the same month. There has only been one major property loss to date being the German flood and hails storm in mid 2013.

There have been no major losses reported that impact the 2014 YOA.

Six year summary of closed years of account

	2012 YOA	2011 YOA	2010 YOA	2009 YOA	2008 YOA	2007 YOA
Syndicate allocated capacity (£m)	389.4	389.0	345.0	221.8	170.0	114.2
Number of Underwriting Members	426	434	2	4	2	1
Aggregate net premiums (£‘000)	223,590	197,550	212,046	198,185	175,210	77,427

Results for illustrative share of £10,000	%	%	%	%	%	%
Gross premium written (% of illustrative share)	72.2	62.4	78.4	117.0	131.0	75.3
Net premium written (% of illustrative share)	57.8	50.8	61.5	89.4	103.1	67.8
Profit (% of gross premium)	23.3	18.5	3.9	19.0	3.0	8.8
Profit (% of capacity)	16.9	11.5	3.1	22.3	4.0	6.6

Results for illustrative share of £10,000	£	£	£	£	£	£
Gross premiums written	7,223	6,235	7,836	11,703	13,100	7,532
Net premiums	5,783	5,079	6,146	8,937	10,306	6,780
Reinsurance to close from an earlier year of account	6,759	6,361	4,235	4,268	1,941	-
Net claims	(3,137)	(3,153)	(3,292)	(3,660)	(5,506)	(1,834)
Reinsurance to close	(7,110)	(6,590)	(6,668)	(6,339)	(5,568)	(3,018)
Underwriting Profit	2,295	1,697	421	3,206	1,173	1,928
Other syndicate operating expenses, exc. personal expenses	(550)	(504)	(465)	(617)	(792)	(944)
Exchange movement on foreign currency translation	(26)	(6)	81	(9)	39	23
Net investment income	511	343	483	424	447	280
Illustrative personal expenses:						
Managing agent’s fee	(75)	(74)	(75)	(75)	(75)	(200)
Profit commission (“PC”)	(419)	(241)	(65)	(472)	(85)	(141)
Other personal expenses	(51)	(61)	(70)	(228)	(308)	(283)
Profit after illustrative personal expenses and PC	1,685	1,154	310	2,229	399	663

Underwriting performance – 2014 calendar year

I am pleased to report an underwriting profit for the calendar year 2014 of £71.9m. The major contributing factor is low catastrophe losses (both natural and man-made) which has also enabled a healthy margin of reserves to be held versus the recommended best estimate.

As with 2013, catastrophe losses were considerably down on average with no activity in the US. The aviation war account was impacted by a number of losses in 2014 but otherwise the claims environment, on the whole, continues to be positive. The 2008 underwriting year International Casualty Reinsurance account is stable, helped by a number of positive settlements in the year while the lack of any significant claims activity in the liability component of Specialty Programmes has enabled us to reverse some of IBNR strengthening that took place last year.

The calendar year result together with key performance indicators is shown below:

	2014	2013
Profit for the financial year (£’000)	48,641	52,806
Claims ratio (%)	44.1%	47.3%
Expenses ratio (%)	44.2%	38.8%
Combined ratio (%)	88.3%	86.1%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of operating expenses and acquisition costs to earned premiums net of reinsurance. The result and ratios are broadly in line with expectations.

Operating expenses

	2014	2013
	£'000	£'000
Acquisition costs – brokerage and commissions	76,736	74,629
Acquisition costs – other	4,432	4,723
Administrative expenses	20,105	20,035
Managing agency fee	2,666	2,866
Personal expenses	13,416	10,921
Operating expenses	117,355	113,174

Expenses are in line with expectations.

Cash flow

There was a net cash flow increase of £54.2m (2013: £70.1m) in the year arising from normal operating activities. Profit releases on open years of £37.7m (2013: £25.5m) were made during the year. On 12 February 2015, the ASML board approved a profit release of £19.3m for the 2013 YOA.

Investment return

Syndicate funds are actively managed by third party investment managers and the returns compared to benchmarks agreed as part of the investment guidelines. The Syndicate has a diversified portfolio in primarily corporate debt, cash and asset backed securities with an average duration that is appropriate compared to the expected liability duration.

2012 YOA

The investment return for the period was £19.9m and the average return over the three years was 3.5%.

2014 calendar year

	Currency	2014	2013
Average funds available for investment (£'000)	Combined Sterling (inc. US dollars)	486,886	492,333
	US dollars	503,359	474,041
Investment return for the year before allocation to Syndicate 6105 (£'000)	Combined Sterling (inc. US dollars)	17,795	12,070
	US dollars	8,017	4,449
Annualised investment return (%)	Combined Sterling (inc. US dollars)	3.7%	2.5%
	US dollars	1.6%	0.9%

In the current financial climate, the returns achieved are satisfactory.

Financial position

The main components of the balance sheet are technical provisions and investments and cash.

Technical provisions include a provision for outstanding claims of £478.9m (2013: £452.4m) and a provision for unearned premiums of £194.5m (2013: £175.5m). The reinsurers' share of technical provisions is £62.8m (2013: £44.3m) in respect of unearned premiums and £39.8m (2013: £22.3m) for outstanding claims. The provision for outstanding claims is based on evaluations of reported claims and estimates for losses incurred but not reported ("IBNR"). As claims may not be settled for a number of years after they are incurred, the setting of provisions involves a degree of judgement as to the ultimate exposure to losses.

Investments and cash total £490.8m (2013: £463.8m) the majority of which are actively managed by third party investment managers.

Disclosure of information to auditors

The directors of ASML who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors of the Syndicate are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the auditors of the Syndicate are aware of that information.

Auditors and Annual general meeting

As permitted under the Syndicate Meeting (Amendment No.1) Byelaw it is not proposed to hold a Syndicate Annual General Meeting. The members of Syndicate 4020 intend to re-appoint KPMG LLP as auditors.

Directors

The directors of ASML below served from 1 January 2014 to the date of this report, unless stated otherwise. Shareholdings in AIHL are stated as at 31 December 2014. A Limited Liability Partnership ("LLP") was established to enable management and staff of ASML to participate on 2012 YOA of the Syndicate. The amounts stated below represent the effective share of the directors in the total capacity of the Syndicate through their involvement in the LLP.

		AIHL	AIHL	AIHL	AIHL	LLP
		"B" Shares	"E" Shares	"G" Shares	"H" Shares	2012 YOA
Name		No.	No.	No.	No.	%
I Beaton	(Chief Executive)	233,388	-	121,788	386,341	0.04
N Bonnar		233,388	-	121,788	386,341	0.05
N Deshpande		34,374	-	23,787	3,863	0.02
D Foreman	(Chairman)	233,387	388,000	123,689	-	0.05
R Oakes	(Non-executive)	-	-	-	-	-
P McIntosh		25,407	-	17,086	12,363	0.01
N Smith		20,550	-	13,457	10,818	-
V Southey	(Non-executive)	-	-	-	-	-
C Watson	(Non-executive)	-	-	-	-	-

Future developments

The capacity of the Syndicate for the 2015 YOA is £340.0m (2014 YOA: £340.0m). The capacity of Syndicate 6105 for the 2015 YOA is £60.0m (2014 YOA: £60.0m). Syndicate 6105 has written a quota share of the 2015 YOA of the Syndicate covering all classes of business.

Principal risks and uncertainties

Risk management framework

ASML maintains a risk register within its risk management framework. Identified risk events are grouped into major risk categories according to the nature of the potential threat they pose to the business. The risk management framework allows risks to be identified and controls to be put in place as necessary, either to prevent the occurrence of the event or to mitigate its impact.

Insurance risk

The ASML Board agrees the Syndicate business plan which sets out targets for volumes, pricing, line sizes and retention by class of business. Performance against these targets is measured regularly throughout the year by the Board.

Risks written are subject to peer review and, on a selective basis, independent review. Pricing is controlled by the monitoring of rate movements and the comparison of target price to actual price for all classes of business. Controls over the aggregation of catastrophe exposures include limiting total exposures written in defined geographical zones, monitoring aggregation by country / region / blast zones and applying line size limits in all classes.

Principal risks and uncertainties (continued)

Catastrophe modelling software and other techniques are used to model expected loss outcomes for Lloyd's Realistic Disaster Scenario returns and in-house catastrophe event scenarios. Reserves are reviewed for adequacy on a quarterly basis and subject to independent actuarial review on an annual basis. The Syndicate also purchases reinsurance, with an appropriate number of reinstatements, to arrive at an acceptable net risk.

The Audit and Risk Assurance Committee ("ARAC"), comprising non-executive directors, reviews and reports to the Board on the management's recommendations on reserves and enquires into any conflicts of interests relevant to the setting of reserves, including any such arising out of profit-related remuneration, so that these are properly managed.

Credit risk

Investment guidelines aim to ensure that the Syndicate's investments are of appropriate quality to match the risk appetite of the business. The portfolio is monitored for concentration with respect to any one issuer and credit ratings across the portfolio.

Underwriters may only write business presented by an approved broker or coverholder. New brokers and coverholders are approved by the Compliance team prior to any business being underwritten. Annual coverholder reviews are required for all lead and material follow binding authority business, which will include a review of financial performance of the coverholder and of the contract, as well as the results of any audits performed on the coverholder, in line with Ark delegated underwriting guidelines.

ASML has a Security Advisory Committee ("SAC") which meets quarterly. The SAC ensures that reinsurance is placed with reinsurers who have a rating of A- or above, or have alternative collateral provided, and who have a good record of claims payment. The SAC also ensures there is no inappropriate concentration of exposure.

Market risk

The investment of syndicate funds is controlled by ASML management with the objective of achieving an investment return commensurate with the risk appetite of the ASML Board.

Liquidity risk

Cash flow forecasts are prepared on a quarterly basis by major currency and reviewed by ASML management on a regular basis. These are also stress tested against major catastrophe loss scenarios.

Operational risk

ASML manages risks in respect of people, IT systems, outsourcing, governance, regulation and business continuity by reviewing its processes and performance on a regular basis. The Syndicate is also exposed to the risk that Lloyd's fails to attain approval for the Lloyd's Internal Model ahead of the implementation of Solvency II on 1 January 2016.

Independent Assurance

ASML has developed a combined assurance plan, providing the ARAC with assurance that key risk and controls are subject to independent assurance. This is provided internally by team and peer review and externally by the Syndicate auditors, signing actuaries, internal audit and in certain circumstances by Lloyd's, the Prudential Regulatory Authority ("PRA") or the Financial Conduct Authority ("FCA"). ASML has outsourced the internal audit function to Mazars, who develop a risk based annual audit plan using the risk register to select areas for reviews.

Corporate governance

The ASML board comprises executive directors and non-executive directors. The non-executive directors include shareholder representatives and independent directors. The Board delegates some of its activities to the following committees: Capital & Risk Allocation, Audit & Risk Assurance, Reserving and Security Advisory.

The non-executive directors are expected to constructively challenge the executive directors on their recommendations and running of the business, to review the performance of management in meeting agreed objectives and targets and to monitor the reporting of performance, to satisfy themselves on the integrity of financial information and to satisfy themselves that financial controls and systems of risk management are adequate.

Principal risks and uncertainties (continued)

The key risks faced by the business are set out in the table below:

Risk Events	Risk category	Overview of Risk Event
Exposure management	Insurance	Risks aggregate such that the exposure to any one event or loss materially exceeds expectations
Underwriting quality	Insurance	Underwriters cannot access risks at adequate pricing levels / do not bind the Syndicate appropriately
Reinsurance purchasing	Insurance	Failure or inability to purchase appropriate or sufficient reinsurance
Delegated underwriting quality	Insurance	Exposure to inappropriate risks through third parties
Reserving	Insurance	Actual experience materially differs from reserves causing adverse movement of results
Underwriting management	Insurance	Returns from policies written are different from expectations, or the business does not meet plan
Claims management	Insurance	Claims are not managed in an appropriate way leading to material adverse results
Broker default	Credit	Brokers do not or cannot make premium payments when due
Reinsurer default	Credit	Reinsurers do not or cannot make payments under valid claims
Coverholder / TPA default	Credit	Coverholders do not or cannot make premium payments when due
Investment counterparty default	Credit	Counterparties do not or cannot make returns when they fall due
Capital availability	Group	Unavailability of appropriate capital
Investor risk	Group	Conflicts of interest with principal investors
Liquidity	Liquidity	Claims not met due to insufficient free funds, failure to satisfy overseas regulatory trust fund requirements
Cash flow management	Liquidity	Poor or inappropriate forecasting of cash flows
Financial market movement	Market	Market movements adversely impacting syndicate assets
Investment returns	Market	Investment portfolio returns are materially different from expectations
People	Operational	Over reliance on key individuals, or potential impact of the loss of one or more key individuals
Emerging and cyclical risks	Operational	Failure to consider the impact of emerging or cyclical events on strategy
Regulatory Risk	Operational	Censure following a breach of regulatory or legal requirements
Data integrity and quality	Operational	Incomplete or inaccurate data resulting in unreliable management information
Distribution Risk	Operational	Distribution chains become unavailable or uncompetitive
Financial crime	Operational	Loss or risk of censure arising from fraud, money laundering, corruption
Outsourcing	Operational	Exposure to liability / failure to achieve objectives / failure of outsource arrangements
Disaster recovery / business continuity	Operational	Business is disrupted by unforeseen events or downtime in systems
Governance structure and oversight	Operational	Inadequate / inappropriate governance structure leading to poor decisions or failure to provide oversight
Legal risk	Operational	Legal action by policyholders, suppliers, employees or other stakeholders
Strategy and planning	Operational	Strategy is not aligned to the management of the business or is not communicated properly
Financial mis-statement	Operational	Financial statements are inaccurate or misleading
IT infrastructure & applications	Operational	IT systems, hardware or applications failure causing material disruption to business operations

N Bonnar

Active Underwriter

11 March 2015

Underwriting Year Distribution Accounts

2012 Year of Account

Statement of managing agent’s responsibilities

The Insurance Accounts Directive (Lloyd’s Syndicates and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd’s Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the Syndicate underwriting year accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

2. take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

3. make judgements and estimates that are reasonable and prudent; and

4. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate underwriting year accounts comply with Lloyd’s Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the members of Syndicate 4020 for the 2012 closed year of account

We have audited the syndicate underwriting year accounts for the 2012 year of account of Syndicate 4020 for the three years ended 31 December 2014, as set out on pages 15 to 21, 36 and 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's 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 Syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 13, the Managing Agent is responsible for the preparation of syndicate underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeprivate.

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2012 closed year of account;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you if, in our opinion:

- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Robert Lewis (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
12 March 2015

Profit and loss account

2012 closed YOA for the three years ended 31 December 2014

	Notes	2012 £'000
Syndicate allocated capacity		389,409
Technical account		
Earned premiums, net of reinsurance		
Gross premiums written	3	281,280
Outwards reinsurance premium		(56,075)
Reinsurance to close premium received, net of reinsurance	5	263,219
Allocated investment return transferred from the non-technical account		19,882
Claims incurred, net of reinsurance		
Claims paid - gross amount		(136,390)
Reinsurer's share		14,232
Reinsurance to close premium payable, net of reinsurance	6	(276,851)
Operating expenses	4	(43,680)
Balance on the technical account for general business		65,617
Non-technical account		
Investment income		19,882
Allocated investment return transferred to technical account		(19,882)
Profit for the 2012 closed YOA		65,617

The notes on pages 18 to 21, 36 and 37 form part of these accounts

Balance sheet

2012 closed YOA as at 31 December 2014

	Notes	2012 £'000
Assets		
Financial investments		282,443
Debtors arising out of reinsurance operations		3,867
Other debtors		610
Cash at bank and in hand		12,871
Overseas deposits		16,398
Other prepayments and accrued income		3,130
Total assets		319,319
Liabilities		
Amounts due to members	7	27,427
Reinsurance to close premium payable to close the account	6	276,851
Creditors arising out of insurance operations		2,885
Creditors arising out of reinsurance operations		1,155
Other creditors		2,309
Accruals and deferred income		8,692
Total liabilities		319,319

The notes on pages 18 to 21, 36 and 37 form part of these accounts. The accounts were approved by the Board of Ark Syndicate Management Limited on 11 March 2015 and signed on its behalf by

N Smith
Finance Director
11 March 2015

Statement of cash flows

2012 closed YOA for the three years ended 31 December 2014

	Notes	2012 £'000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit on ordinary activities		65,617
Open year profit release		(38,001)
Other		(188)
(Increase) in cash and investments		(27,428)
Net cash inflow from operating activities		-

The notes on pages 18 to 21, 36 and 37 form part of these accounts.

Notes to the accounts

1. Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 by the Association of British Insurers (as amended in December 2006).

The Lloyd's Syndicate Accounting Byelaw requires the aggregation of movements in each of the three calendar years' for any Underwriting Year account. For the 2012 YOA each calendar year is aggregated using the closing rate of exchange as at 31 December 2014.

Members participate on a syndicate by reference to a YOA and each syndicate YOA is a separate annual venture. These accounts relate to the 2012 YOA which has been closed by reinsurance to close at 31 December 2014; consequently the balance sheet represents the assets and liabilities of the 2012 YOA and the profit and loss account and cash flow statement reflect the transactions for the YOA during the three year period until closure.

2. Accounting policies

The underwriting accounts for each YOA are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the YOA to be closed by payment of a reinsurance to close premium to the successor year of account.

a Premiums written

Gross premiums are allocated to each YOA on the basis of the inception date of the policy. Premiums are shown gross of acquisition costs such as brokerage payable and taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified. Premiums written are treated as fully earned at 36 months.

b Claims Paid

Gross claims paid include claims settlement expenses and are attributed to the same YOA as the original premium for the underlying policy.

c Reinsurance to close premium payable

The reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs, including claims incurred but not reported ("IBNR") relating to the closed YOA.

Outstanding claims consist of amounts set aside for notified claims and a provision for IBNR claims. The amount included in respect of IBNR is arrived at by considering the actuarially calculated provision, using techniques which generally involve statistical techniques of estimation applied by ASML's actuaries and reviewed by external consulting actuaries, as well as the opinion of the class underwriters and executive management. The actuarial techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. Large claims are generally assessed individually, being calculated on a case by case basis or projected separately to allow for the possible distortive effects of the developments of these claims on the balance of the data. The provision for claims also includes amounts in respect of internal and external claims handling costs.

Accordingly the two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

2. Accounting policies (continued)

Ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

d Foreign currencies

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

Assets and liabilities denominated in US dollars, Euros, Canadian dollars and Australian dollars, where the assets and liabilities in the currency ledgers are broadly matched, are translated at the closing rate of exchange for the year. Assets and liabilities denominated in other foreign currencies are translated into sterling at the rates of exchange at the balance sheet date.

The following rates of exchange have been used in the preparation of these accounts; US dollars 1.56 , Canadian dollars 1.81 , Euros 1.29 and Australian dollars 1.91 .

e Investment return

Investment return represents all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on assets arising in a calendar year are apportioned to YOA open during the calendar year in proportion to the average funds available for investment for the Syndicate.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

f Taxation

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

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

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

g Profit commission

Profit commission is charged by ASML in accordance with the managing agent's agreement.

Notes to the accounts

3. Segmental Analysis

	Gross premiums written £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident & Health	26,517	(15,216)	(4,160)	(1,726)	5,415
Cargo & Specie	8,704	(7,536)	(1,366)	(278)	(476)
Casualty Reinsurance	21,574	(26,018)	(3,385)	(536)	(8,365)
Energy – Upstream	35,501	(9,114)	(5,570)	(5,166)	15,651
Liability – Marine & Energy	7,975	(12,080)	(1,251)	7,375	2,019
Marine Hull	8,227	(4,282)	(1,291)	(1,062)	1,592
Property Reinsurance	39,070	(18,449)	(6,129)	(8,813)	5,679
Speciality Programmes	42,843	(20,532)	(6,722)	(3,433)	12,156
Specialty Reinsurance	10,634	(7,835)	(1,668)	(287)	844
War, Terrorism and Political Risk	24,113	3,582	(3,783)	(12,546)	11,366
Worldwide Property – Direct and Facultative	10,741	(3,283)	(1,685)	(2,600)	3,173
Worldwide Property Programmes	15,864	(9,117)	(2,489)	(2,433)	1,825
Contingency	3,913	(1,721)	(614)	(656)	922
Property Treaty	16,857	(2,260)	(2,645)	(7,591)	4,361
Fine Art & specie	5,879	(2,529)	(922)	(838)	1,590
RITC adjustment	2,868			(1,253)	1,615
	281,280	(136,390)	(43,680)	(41,843)	59,367
RITC premium	282,247	(297,428)	-	1,549	(13,632)
Total	563,527	(433,818)	(43,680)	(40,294)	45,735

All premiums were concluded in the UK.

4. Operating expenses

	£'000
Personal expenses	21,196
Loss on currency sales	1,009
Other expenses	21,475
	43,680

Personal expenses comprise Lloyd's subscriptions, central fund contributions, and a managing agent's fee and profit commission paid to ASML. All other expenses, including audit fees, are charged to and borne by the Syndicate.

All executive directors and staff are employed and remunerated by ASML. Salaries and related costs are included within the management fee charged by ASML and accordingly no direct salary cost is borne by the Syndicate. Details of salary cost and directors remuneration are disclosed in the financial statements of ASML.

Notes to the accounts

5. Reinsurance to close premium received

	2012 £'000
Gross outstanding claims	180,343
Reinsurance recoveries anticipated	(31,816)
Provision for gross claims incurred but not reported	89,083
Reinsurance recoveries anticipated	13,935
Unallocated loss adjustment expenses	4,765
Foreign exchange movement	6,909
	263,219

6. Reinsurance to close premium payable

	2012 £'000
Gross outstanding claims	177,919
Reinsurance recoveries anticipated	(25,101)
Provision for gross and net claims incurred but not reported	114,394
Reinsurance recoveries anticipated	4,524
Unallocated loss adjustment expenses	5,115
	276,851

The reinsurance to close is effected to the 2013 YOA of the Syndicate.

7. Reconciliation of members' balances

	2012 £'000
Profit for the year of account	65,617
Open year distribution to members	(38,001)
Members Subscriptions	(188)
At 31 December	27,428

Calendar Year Report & Accounts

2014

Statement of managing agent's responsibilities

The managing agent is responsible for preparing syndicate annual accounts in accordance with applicable law and regulations.

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

In preparing the syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, with the exception of changes arising on the adoption of new accounting standards in the year;

2. make judgments and estimates that are reasonable and prudent;

3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and

4. prepare the accounts on the going concern basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

Independent auditors' report to the members of Syndicate 4020

We have audited the Syndicate 4020 annual accounts for the year ended 31 December 2014, as set out on pages 28 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's 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 Syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 23, the Managing Agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

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

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

Robert Lewis (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
12 March 2015

Profit and loss account

For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Technical account			
Earned premiums, net of reinsurance			
Gross premiums written	4	335,383	359,054
Outward reinsurance premiums		(75,650)	(61,012)
Change in the provision for unearned premiums			
Gross amount		(9,569)	(15,955)
Reinsurers' share		15,557	9,797
		265,721	291,884
Allocated investment return transferred from the non-technical account		17,390	12,066
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(146,952)	(146,342)
Reinsurers' share		24,260	14,908
		(122,692)	(131,434)
Change in the provision for claims			
Gross amount		(9,917)	(7,412)
Reinsurers' share		15,494	876
		5,577	(6,536)
		(117,115)	(137,970)
Operating expenses	4,5	(117,355)	(113,174)
Balance on the technical account for general business		48,641	52,806
Non-technical account			
Investment income	7	17,390	12,066
Allocated investment return transferred to technical account		(17,390)	(12,066)
Profit for the financial year		48,641	52,806

Statement of total recognised gains and losses

	Notes	2014 £'000	2013 £'000
Profit for the financial year	12	48,641	52,806
Currency translation difference on foreign currency ledgers	12	3,286	(5,766)
Total recognised gains in the financial year		51,927	47,040

All operations are continuing. The notes on pages 28 to 37 form part of these accounts.

Balance sheet

As at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Investments			
Other financial investments	8	478,491	444,266
Reinsurers' share of technical provisions			
Provision for unearned premiums		39,842	22,270
Claims outstanding		62,811	44,268
		102,653	66,538
Debtors			
Debtors arising out of direct insurance operations	9	92,621	80,609
Debtors arising out of reinsurance operations	10	29,397	25,136
Other debtors		7,406	6,993
		129,424	112,738
Other assets			
Cash at bank and in hand		12,262	19,557
Overseas deposits	11	22,297	29,102
		34,559	48,659
Prepayments and accrued income			
Deferred acquisition costs		52,786	45,317
Other prepayments and accrued income		3,444	4,680
		56,230	49,997
Total assets		801,357	722,198
Liabilities			
Capital and reserves			
Members' balances attributable to underwriting participations	12	49,638	49,539
Technical provisions			
Provision for unearned premiums		194,529	175,539
Claims outstanding		478,889	452,436
		673,418	627,975
Creditors			
Creditors arising out of direct insurance operations	13	1,323	1,151
Creditors arising out of reinsurance operations	14	66,143	36,885
Accruals and deferred income		10,835	6,648
		78,301	44,684
Total liabilities		801,357	722,198

The notes on pages 28 to 37 form part of these accounts. The accounts were approved by the Board of Ark Syndicate Management Limited on 11 March 2015 and signed on its behalf by

N Smith, Finance Director,
11 March 2015

Statement of cash flows

For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		48,642	52,806
Change in net technical provisions		9,326	16,312
Change in debtors		(23,118)	7,314
Change in creditors		33,619	(16,184)
Realised and unrealised gains on cash and investments		(17,543)	14,999
Other movements		3,269	(5,196)
		54,195	70,051
Profits and transfers out			
Open year profit releases		(51,613)	(36,063)
Other		-	-
		(51,613)	(36,063)
Net cash inflow for the year		2,582	33,988
Cash flows were invested as follows:			
Change in cash holdings	15	(7,569)	15,433
Change in overseas deposits	15	(6,473)	(384)
Net portfolio investment	15,17	16,624	18,939
Net investment of cash flows	16	2,582	33,988

The notes on pages 28 to 37 form part of these accounts.

Notes to the accounts

1. Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 by the Association of British Insurers (as amended in December 2006).

2. Accounting policies

The accounts have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

a Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting years. Premiums are shown gross of acquisition costs such as brokerage payable and taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified.

b Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date. The provision is calculated on a policy by policy basis.

c Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the same accounting year as the premiums for the direct or inwards business being reinsured.

d Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR").

Claims incurred comprise claims and claims handling expenses paid in the year and the movement in provision for outstanding claims and future claims handling expenses. Recoverable amounts arising out of subrogation and salvage together with reinsurance recoveries are deducted from the cost of gross claims.

Outstanding claims consist of amounts set aside for notified claims and a provision for IBNR claims. The amount included in respect of IBNR is arrived at by considering the actuarially calculated provision, using techniques which generally involve statistical techniques of estimation applied by ASML's actuaries and reviewed by external consulting actuaries, as well as the opinion of the class underwriters and executive management. The actuarial techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. Large claims are generally assessed individually, being calculated on a case by case basis or projected separately to allow for the possible distortive effects of the developments of these claims on the balance of the data. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

Notes to the accounts

2. Accounting policies (continued)

d Claims provisions and related recoveries (continued)

Ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

e Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied on them are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

f Foreign currencies

Transactions in US dollars, Euros, Canadian dollars and Australian dollars are translated at the average rates of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed. Realised exchange differences are included in the technical account within operating expenses.

Assets and liabilities denominated in US dollars, Euros, Canadian dollars and Australian dollars, where the assets and liabilities in the currency ledgers are broadly matched, are translated at the closing rate of exchange for the year with exchange differences arising from the retranslation of the opening net investment, and the result for the year, in the respective ledgers recorded as a movement in reserves within the statement of total recognised gains and losses. Assets and liabilities denominated in other foreign currencies are translated into sterling at the rates of exchange at the balance sheet date.

g Investments

All investments are shown at current market value, excluding accrued interest, at the balance sheet date. For this purpose listed investments are stated at bid-price and deposits with credit institutions and overseas deposits are stated at cost. Accrued interest is included in prepayments and accrued income on the face of the balance sheet. The cost of syndicate investments held at the balance sheet date is the original cost of investments held at the year end. Unrealised gains and losses are recognised in the profit and loss account.

In 2013 ASML allocated certain investments to a held-to-maturity portfolio which were measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. The impact of this change in accounting treatment has reduced the result and net assets of the Syndicate by £0.8m.

h Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and purchase price, together with the reversal of unrealised gains and losses recognised in earlier accounting years in respect of investment disposals in the current year.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

2. Accounting policies (continued)

i Taxation

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

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

j Profit commission

Profit commissions expected to arise on closure of a Lloyd's YOA are recognised on an accruals basis subject to an assessment of certainty over the year's profitability.

3. Management of financial risk

The Syndicate is exposed to financial risks primarily through its financial assets, reinsurance assets and policyholder liabilities. The key financial risks assessed are:

a Market risk

Market risk is the risk that the Syndicate suffers loss from volatility or over concentration in its investment portfolio or due to currency mismatch between assets and liabilities. The Syndicate's investment manager produces a monthly report which sets out the investment mix and performance against benchmark indices. This is reviewed by executive management each month. The principal market risks and how exposure to these risks is managed are:

- Interest rate risk: The Syndicate works to manage the impact of interest rate fluctuations on the fixed interest portfolio. The effective duration of the portfolio profile is managed with consideration given to the estimated duration of policyholder liabilities.
- Foreign Exchange Risk: Foreign Exchange Risk is managed primarily by matching assets and liabilities in each foreign currency as closely as possible. To assist in the matching of assets and liabilities in foreign currencies the Syndicate may enter into foreign exchange contracts.

b Credit risk

Credit Risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. Key areas where the Syndicate is exposed to credit risk are reinsurance recoverables; amounts due from insurance intermediaries; amounts due from insurance contract holders; and amounts due from corporate bond issuers.

The Syndicate's fixed interest portfolio is monitored to ensure credit risk does not exceed the Syndicate's risk appetite. In addition, the Syndicate places limits on concentrations of exposures to a specific counterparty. The average rating of the portfolio is 'AA-'.

The Syndicate takes a proactive approach to the collection of reinsurance recoveries. New reinsurers may be required to post collateral depending on their size, rating and potential exposure to the Syndicate.

c Liquidity risk

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

Notes to the accounts

4. Segmental analysis

Year ended 31 December 2014	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident & Health	35,093	34,509	(11,706)	(15,364)	(1,473)	5,966
Cargo & Specie	12,091	11,781	(8,372)	(4,790)	(122)	(1,503)
Casualty Reinsurance	11,850	14,453	(8,498)	(4,317)	(485)	1,153
Energy – Upstream	31,196	32,509	(9,161)	(8,817)	(6,885)	7,646
Liability – Marine & Energy	7,491	8,198	(6,955)	(2,249)	2,454	1,448
Marine Hull	9,895	9,298	(4,729)	(3,379)	11	1,201
Property Reinsurance	29,975	30,914	(4,763)	(7,765)	(9,396)	8,990
Speciality Programmes	84,629	75,622	(43,585)	(33,061)	(4,216)	(5,240)
Specialty Reinsurance	11,742	9,920	(4,953)	(2,078)	(330)	2,559
War, Terrorism and Political Risk	29,216	30,006	(25,260)	(10,158)	9,314	3,902
Worldwide Property – Direct and Facultative	14,201	11,903	(4,334)	(3,165)	(2,085)	2,319
Worldwide Property Programmes	19,298	19,149	(7,839)	(8,752)	(1,999)	559
Contingency	6,338	6,053	(3,075)	(2,444)	(570)	(36)
Property Treaty	238	3,639	2,206	(827)	(427)	4,591
Fine Art & Specie	8,021	8,048	(4,258)	(2,821)	(2,276)	(1,307)
Package Programmes	24,109	19,812	(11,587)	(7,368)	(1,854)	(997)
	335,383	325,814	(156,869)	(117,355)	(20,339)	31,251

Year ended 31 December 2013	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident & Health	38,419	38,641	(18,261)	(16,141)	(1,786)	2,453
Cargo & Specie	11,549	11,842	(5,073)	(4,809)	(417)	1,543
Casualty Reinsurance	17,445	21,927	(18,137)	(5,721)	(640)	(2,571)
Energy – Upstream	35,805	38,896	(14,955)	(10,437)	(5,815)	7,689
Liability – Marine & Energy	9,017	8,998	(13,057)	(2,417)	3,634	(2,842)
Marine Hull	10,017	10,769	(7,001)	(3,898)	(768)	(898)
Property Reinsurance	34,999	36,921	(8,024)	(8,555)	(7,112)	13,230
Speciality Programmes	69,792	58,609	(39,710)	(23,766)	(1,779)	(6,646)
Specialty Reinsurance	12,979	13,189	(5,895)	(2,781)	(327)	4,186
War, Terrorism and Political Risk	33,906	31,059	(3,443)	(10,152)	(7,152)	10,312
Worldwide Property – Direct and Facultative	11,618	12,075	155	(3,119)	(3,207)	5,904
Worldwide Property Programmes	19,071	22,309	(5,053)	(9,593)	(2,458)	5,205
Contingency	6,053	5,769	(2,586)	(2,143)	(841)	199
Property Treaty	16,779	16,308	(4,744)	(4,022)	(6,283)	1,259
Fine Art & Specie	7,898	7,428	(3,451)	(2,311)	(220)	1,446
Package Programmes	23,707	8,359	(4,519)	(3,309)	(260)	271
	359,054	343,099	(153,754)	(113,174)	(35,431)	40,740

All direct premiums were written and concluded in the UK. Gross written premiums by location of the risk are as follows:

	2014 £'000	2013 £'000
UK	7,764	7,558
Other EU countries	13,789	11,635
US	156,017	162,920
Other	157,813	176,941
	335,383	359,054

5. Operating expenses

	2014 £'000	2013 £'000
Acquisition costs – brokerage and commission	76,736	74,629
Acquisition costs – other	4,432	4,723
Administrative expenses	20,105	20,035
Managing agency fee	2,666	2,866
Personal expenses	13,416	10,921
	117,355	113,174

Administrative expenses are incurred on behalf of the Syndicate by ASML. These expenses include:

	2014 £'000	2013 £'000
Audit fees	140	135
Payments to auditors for non-audit services:		
- taxation services	25	24
Performance related pay	484	-

6. Directors and employees

All executive directors and staff are employed and remunerated by ASML. Salaries and related costs are included within the management fee charged by ASML and accordingly no direct salary cost is borne by the Syndicate. Details of salary cost and directors remuneration are disclosed in the financial statements of ASML.

The emoluments of the active underwriter are as follows:

	2014 £'000	2013 £'000
Gross emoluments excluding pension contributions	396	376
Contributions to money purchase pension schemes	38	47
	434	423

Notes to the accounts

7. Investment income

	2014 £'000	2013 £'000
Income from investments	11,068	14,483
Gains on the realisation of investments	5,586	70
Unrealised gains on investments	5,152	2,850
Losses on the realisation of investments	(1,515)	(1,602)
Unrealised losses on investments	(2,568)	(3,383)
Investment management charges	(333)	(352)
	17,390	12,066

8. Other financial investments

	Cost 2014 £'000	Value 2014 £'000	Cost 2013 £'000	Value 2013 £'000
Current value:				
Shares and other variable yield securities	185,522	187,684	75,834	78,257
Debt and other fixed income securities	191,981	189,899	208,509	205,323
Participation in investment pools	36,872	36,907	37,262	37,110
Deposits with credit institutions	63,551	64,001	33,907	33,764
	477,926	478,491	355,512	354,454
Amortised cost:				
Debt and other fixed income securities	-	-	89,408	89,812
	477,926	478,491	444,920	444,266

All investments are stated in the balance sheet at market value. In 2013, a number of assets were valued at amortised cost, less impairment losses. The market value of held to maturity investments in 2013 was £95.3m, and the net excess of amounts receivable at maturity over amortised cost was £5.5m.

Shares and other variable yield securities include funds held in managed liquidity funds.

9. Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year	92,413	80,485
Due after one year	208	124
	92,621	80,609

Notes to the accounts

10. Debtors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year	29,368	25,061
Due after one year	29	75
	29,397	25,136

11. Overseas deposits

Overseas deposits are deposits lodged as a condition of conducting underwriting business in certain countries or states within countries.

12. Reconciliation of members' balances

Year ended 31 December 2014	2014 YOA £'000	2013 YOA £'000	2012 YOA £'000	Total £'000
At 1 January	-	1,832	33,620	35,452
Profit for the year	2,215	16,719	29,707	48,641
Other recognised gains	301	955	2,030	3,286
Distribution	-	-	(37,741)	(37,741)
At 31 December	2,516	19,506	27,616	49,638

Year ended 31 December 2013	2013 YOA £'000	2012 YOA £'000	2011 YOA £'000	Total £'000
At 1 January	-	5,522	21,889	27,411
Profit for the year	1,013	31,009	20,784	52,806
Other recognised gains	819	(2,651)	(3,934)	(5,766)
Distribution	-	(260)	(24,652)	(24,912)
At 31 December	1,832	33,620	14,087	49,539

The members participate on the Syndicate by reference to years of account and the ultimate result, assets and liabilities are assessed with reference to policies incepting in that YOA in respect of their membership of a particular year.

13. Creditors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year	1,157	1,151

14. Creditors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year	66,143	36,870
Due after one year	-	15
	66,143	36,885

15. Movement in opening and closing portfolio investments and cash net of financing

	2014 £'000	2013 £'000
Net cash outflow for the year	(7,569)	15,433
Cash flow – overseas deposits	(6,473)	(384)
Cash flow – portfolio investments	16,624	18,939
Movement arising from cash flows	2,582	33,988
Changes in market values and exchange rates	17,543	(14,999)
Total movement in portfolio investments net of financing	20,125	18,989
Balance brought forward at 1 January	492,925	473,936
Balance carried forward at 31 December	513,050	492,925

16. Movement in cash and portfolio investments

	At 1 January 2014 £'000	Cash flow £'000	Change in market value £'000	At 31 December 2014 £'000
Cash at bank and in hand	19,557	(7,569)	274	12,262
Overseas deposits	29,102	(6,473)	(333)	22,296
Total cash	48,659	(14,042)	(59)	34,558
Shares and other variable yield securities	78,257	105,960	3,467	187,684
Debt and other fixed income securities	259,791	(81,353)	11,461	189,899
Participation in investment pools	37,110	444	(647)	36,907
Deposits with credit institutions	69,108	(8,427)	3,321	64,002
Total portfolio investments	444,266	16,624	17,602	478,492
Total cash and portfolio investments	492,925	2,582	17,543	513,050

17. Net cash inflow / (outflow) on portfolio investments

	Purchases £'000	Sales £'000	Total £'000
Shares and other variable yield securities	(105,960)	-	(105,960)
Debt and other fixed income securities	(111,069)	192,422	81,353
Participation in investment pools	(444)	-	(444)
Deposits with credit institutions	-	8,427	8,427
	(217,473)	200,849	(16,624)

18. Claims outstanding

The over provision for claims, net of reinsurance, at the beginning of the year compared with payments and provisions at the end of the year in respect of prior years was £27.6m (2013: £31.7m). The favourable claims environment in 2014 has led to reserve releases across a number of classes, primarily Property Reinsurance, Energy Upstream, Political Risks, Terrorism, and Accident & Health.

Notes to the accounts

Ultimate parent company

The parent company of ASML is AIHL. The registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

Other disclosures

Swiss Reinsurance Company Limited, which forms part of the Swiss Reinsurance group, holds 11.69% of the ordinary share capital of AIHL. The Syndicate has purchased reinsurance protection on normal commercial terms and at arms length from Swiss Reinsurance Company (UK) Limited ("Swiss Re"), which is part of the Swiss Reinsurance group. Premiums paid by the Syndicate to Swiss Re in the year amounted to £4.5m (2013: £1.2m).

C Watson is employed by Aquiline Capital Partners LLC ("Aquiline"). Funds managed by Aquiline hold 27.14% of the ordinary share capital of AIHL. Aquiline own Conning Asset Management Company ("Conning") which provides investment management services to ASML in respect of syndicate funds under a contract entered into on normal commercial terms and at arms length. Fees paid by ASML to Conning in the year in respect of these services amounted to £0.3m (2013: £0.3m) and are recharged to the Syndicate.

Whittington Ventures Limited held 6% of the ordinary share capital of GAIHL until October 2012, when their entire shareholding was purchased by GAIHL. ASML entered into a contract on normal commercial terms and at arms length for the provision of outsourced services with Whittington Management Services Limited, which formed part of the Whittington group along with Whittington Ventures Limited. In 2012, Whittington Management Services Limited was sold by the Whittington group and was renamed Asta Management Services Limited ("Asta"). Fees paid by ASML to Asta in the year in respect of these services were £0.3m (2013: £0.3m).

C Watson is a director of Validus Holdings Ltd. The Syndicate has purchased reinsurance protection on normal commercial terms and at arms length from the Validus Group. Premiums paid by the Syndicate in the year amounted to £1.7m (2013: £1.7m).

R Oakes was a non-executive director of Omega Underwriting Agents Limited ("Omega"), until his resignation on 5 September 2012. Omega was the managing agent of Syndicate 958 at Lloyd's. The Syndicate has purchased reinsurance protection on normal commercial terms and at arms length from Syndicate 958. Premiums paid by the Syndicate in the year amounted to nil (2013: £0.8m).

In 2012, R Oakes was appointed a non-executive director of Cathedral Underwriting Limited, the managing agent of Syndicate 2010 and Syndicate 3010 at Lloyd's. The Syndicate has purchased reinsurance protection on normal commercial terms and at arms length from Syndicate 2010. Premiums paid by the Syndicate in the year amounted to less than £0.1m (2013: £0.1m). Also, the Syndicate provided reinsurance under separate contracts to Syndicate 2010 on normal commercial terms and at arms length. Gross premium income, excluding brokerage and commissions, due to the Syndicate under these contracts amounted to £0.4m (2013: £0.5m).

Until his resignation on 10 April 2013, V Southey was a non-executive director of Talbot Underwriting Limited, managing agent of Syndicate 1183 at Lloyd's. The Syndicate has purchased reinsurance protection on normal commercial terms and at arms length from Syndicate 1183. Premiums paid by the Syndicate in the year amounted to £0.3m (2013: £0.2m). Also, the Syndicate provided reinsurance under separate contracts to Syndicate 1183 on normal commercial terms and at arms length. Gross premium income, excluding brokerage and commissions, due to the Syndicate under these contracts amounted to £0.2m (2013: £0.2m).

I Beaton, N Bonnar, N Deshpande, D Foreman and P McIntosh participated in an LLP which was established to enable management and staff of ASML to participate on the 2012 YOA of the Syndicate. The directors' effective share in the total capacity of the Syndicate through their involvement in the LLP is set out in the Managing Agent's report.

I Beaton, N Bonnar and D Foreman are partners of Elvis Capital Partners ("ECP"). GAIHL has a contingent profit commission arrangement with ECP based on the profit after tax produced by the Syndicate operations. Profit commission due to ECP from GAIHL under this contract amounted to £1.7m (2013: £1.7m).

ECP owns Mercury Capital Limited ("Mercury"), a catastrophe risk manager. Mercury provides actuarial consultancy services to GAIHL on normal commercial terms which GAIHL then recharges to ASML. Fees paid by GAIHL to Mercury in the year in respect of these services amounted to £0.1m (2013: £0.1m).

Other disclosures (continued)

The Syndicate has made investments through Mercury in assets exposed to catastrophe insurance risk through various Industry Loss Warranty arrangements. Swiss Re is a counterparty of one of these arrangements. At the year end, included within the investments of the Syndicate is £16.0m relating to these assets (2013: £14.7m). Investment income of £0.3m generated by these assets has been recognised in the year (2013: £1.5m). No fee is paid by the Syndicate in respect of these arrangements to Mercury, whose remuneration is a transaction cost to the original assured counterparty.

The Syndicate underwrites business through Cove Program Managers Limited ("Cove") under a binding authority. Gross premium income, excluding brokerage and commissions, due to the Syndicate under this binding authority amounted to £3.8m (2013: £1.6m). Commissions paid by the Syndicate in the year to Cove amounted to £1.4m (2013: £0.5m). ASML has entered into share and finance arrangements with Cove, which owns 90% of the Cove Program Underwriting cell of Aquila Underwriting LLP. ASML holds 14.52% of the ordinary share capital of Cove and under the terms of a Shareholders Agreement governing this investment has loaned £0.2m (2013: £0.6m) to Cove. This amount remains outstanding at the year end. I Beaton serves without fee as a non-executive director of Cove.

In February 2013, the Syndicate acquired a share in a sea vessel after the underwriters on the slip exercised their subrogation rights under a political risk claim. MJHR Pte Limited ("MJHR") has been established to manage and ultimately sell the vessel. ASML holds 46% of the ordinary share capital of MJHR and ECP holds 9%.

The Xchanging group provides premium processing, administration and claims adjusting services to the Syndicate on normal commercial terms. Until his resignation in 2013, I Beaton served without fee as a non-executive director of Xchanging Claims Services Limited ("XCS") which is part of the Xchanging group. Fees paid by the Syndicate in the year to the Xchanging group amounted to £1.8m (2013: £1.8m).

Ark Underwriting Inc. ("AUI") was established in 2013 as a wholly owned subsidiary of ASML to facilitate the introduction of US Reinsurance Business into the Syndicate through a binding authority. AUI will earn commission set on normal commercial terms. Initial start-up costs and ongoing profit or loss from AUI will be retained in the Ark Group. In 2012 the amount paid in commission to AUI was $0.7m (2013: less than $0.1m), and the loss retained by the Ark Group was $0.9m.