Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Report & Financial Statements

Syndicate 6105

Contents

Directors and administration

Managing agent

Ark Syndicate Management Limited

Directors

I Beaton	(Chief Executive)
N Bonnar	
N Brothers	
D Foreman	(Chairman)
P McIntosh	
N Smith	
J Wardrop	(Non-executive)
C Watson	(Non-executive)
J Welman	(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

Managing agent's report

The directors of the managing agent present their report and accounts for the 2014 year of account ("YOA") of Syndicate 6105 ("the Syndicate") as closed at 31 December 2016 and their annual report and accounts for the year to 31 December 2016.

Principal activity and review of the business

The Syndicate is a Special Purpose Syndicate, established in 2008 to underwrite a quota share of Syndicate 4020. The quota share covers all Syndicate 4020 lines with a cession of 15.00%. The Syndicate is charged an overriding commission on all gross premiums, net of commissions, written under the contract. A profit commission is payable to ASML based on the profit earned under the contract. The 2015 YOA is the final underwriting year of the Syndicate.

Gross written premium income for the year split by the underlying class of business of Syndicate 4020 was as follows:

	2015 YOA estimate £'000	2014 YOA estimate £'000	2016 Cal. Year £'000	2015 Cal. year £'000
Accident & Health	6,261	5,851	308	5,365
Cargo & Specie	2,379	1,493	(336)	2,244
Casualty Reinsurance	2,183	2,218	334	1,736
Energy Upstream	4,277	4,236	(369)	3,657
Marine & Energy Liability	777	940	56	599
Marine Hull	2,533	1,416	(78)	2,090
Property Reinsurance	2,610	3,642	153	2,064
Specialty Programmes	13,225	14,572	940	11,973
Specialty Reinsurance	2,029	2,063	140	1,639
War, Terrorism & Political Risk	3,571	4,203	381	2,992
Property Direct & Facultative	2,809	2,255	(118)	2,462
Property Programmes	3,057	3,184	158	2,292
Contingency	1,102	1,058	176	969
Fine Art & Specie	1,375	1,367	26	1,182
Package Programmes	3,382	4,407	28	2,595
	51,570	52,895	1,799	43,859

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 4020 and with effect from 1 January 2017, Syndicate 3902 which had previously operated as an Incidental Syndicate.

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

Class of business	Description
Accident & Health	Includes a spread of exposure across war, key man, disability, credit card personal accident insurance and reinsurance catastrophe.
Cargo & Specie	Syndicate 4020 - 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. Incidental Syndicate 3902 - Focus on small /medium sized accounts, excludes cash in transit, war on land and jewellers block.
Casualty Reinsurance	Predominantly Medical Malpractice, Professional Liability and some General Liability.
Energy Upstream	Syndicate 4020 - 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. Incidental Syndicate 3902 - Upstream oil and gas focussed with a broad geographical spread.
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.

Class of business	Description
Marine Hull	Syndicate 4020 - Insurance of low profile, smaller fleet business and specialised tonnage, with some vessel construction, marine property and marine war. Incidental Syndicate 3902 - Emphasis on smaller brown water tonnage and older vessels on limited conditions.
Property Reinsurance	Predominantly non-proportional, balanced between US and Rest of World ("ROW") exposures.
Specialty Programmes	There are three parts - Professional liability, Contingency and Crisis management. Contingency and Crisis management were discontinued in 2015. Professional liability includes architects and engineers, insurance professionals and real estate agents E&O, Allied Health, Cyber Liability and Miscellaneous E&O.
Specialty Reinsurance	Consists of Aviation and Specialty reinsurance, including crop and satellite. Very little Marine is written.
War, Terrorism & Political Risk	Syndicate 4020 - Aviation War consists of airline hull war and excess AV52. This was discontinued in 2016. 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. Incidental Syndicate 3902 – Aviation War consists of airline, general aviation (including rotor wing), hull war and excess of loss / space.
Property Direct & Facultative	Syndicate 4020 - Mostly low fire hazard occupancies, avoiding higher risk exposed classes such as mining, mineral processing and other heavy industries. Incidental Syndicate 3902 - Predominately written on an excess of loss basis, and consists of a diverse mix of municipalities, real estate, heavy industry, energy, utility, transport and leisure.
Property Programmes	US and Canadian binding authorities, avoiding middle market / larger commercial property accounts which are highly competitive.
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.
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

The 2014 YOA has been closed with a profit of £3.3m after all standard personal expenses, equivalent to a profit on stamp capacity of 5.5%. The liability reserves of the Specialty Programmes and Package Programmes accounts have been strengthened in recognition of incurred and potential future claim development. Major loss estimates have proven to be adequate.

The 2015 YOA is forecast at the 24 month stage to produce an adequate return on stamp capacity. There have been no major catastrophe losses reported that impact the 2015 YOA although the year has been impacted by a number of mid-size losses such as the Brussels terrorist attack, and the wildfires affecting Alberta and Tennessee. This YOA also has exposure to the liability sections of the Specialty Programmes and Package Programmes mentioned earlier. The forecast result for the 2015 YOA is unchanged at 3.0% - 8.0% of capacity.

Underwriting performance – 2016 calendar year

The underwriting profit for the calendar year 2016 is £5.0m. As with 2015, major catastrophe losses were considerably down on the long term average with little activity in the US although the year has been impacted by a number of mid-size losses such as the Brussels terrorist attack, and the wildfires affecting Alberta and Tennessee. The liability section of the Specialty Programmes account has been strengthened in recognition of incurred and potential future claim development. The calendar year result together with key performance indicators is shown below:

	2016	2015
Claims ratio (%)	48.3%	50.1%
Expenses ratio (%)	38.4%	44.4%
Combined ratio (%)	86.7%	94.5%

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 (excluding foreign exchange movements) to earned premiums net of reinsurance. The claims ratio reflects the underwriting issues noted above, and the expense ratio is broadly in line with expectations. The combined ratio including all foreign exchange movements is 87.0% (2015: 94.8%)

Seven year summary - closed years	2014 YOA	2013 YOA	2012 YOA	2011 YOA	2010 YOA	2009 YOA	2008 YOA
Syndicate allocated capacity (£m)	60.0	19.0	10.5	11.0	30.0	28.2	20.2
Number of Underwriting Members	1,387	978	620	661	426	423	389
Aggregate net premiums (£'000)	38,662	10,246	5,526	7,246	18,489	25,291	20,006

Results for illustrative share of £10,000	%	%	%	%	%	%	%
Gross premium written (% of illustrative share)	64.5	54.1	52.6	49.8	61.6	89.6	100.3
Net premium written (% of illustrative share)	64.5	54.1	52.6	49.8	61.6	89.6	100.3
Profit (% of gross premium)	8.5	18.3	31.7	26.2	0.6	23.0	2.2
Profit (% of capacity)	5.5	9.9	16.7	13.1	0.4	20.6	2.2

Results for illustrative share of £10,000	£	£	£	£	£	£	£
Gross premiums written	6,448	5,406	5,261	4,984	6,156	8,957	10,028
Net premiums	6,448	5,406	5,261	4,984	6,156	8,957	10,028
Reinsurance to close from an earlier year of account	-	-	1,055	-	4,926	2,993	-
Net claims	(2,407)	(2,029)	(2,065)	(2,060)	(3,330)	(3,193)	(4,630)
Reinsurance to close	(2,164	(1,398)	(1,676)	(974)	(7,287)	(5,394)	(4,208)
Underwriting Profit	1,877	1,979	2,575	1,950	465	3,363	1,190
Acquisition costs	-	-	-	-	-	-	-
Other syndicate operating expenses, excluding personal expenses	(901)	(660)	(677)	(514)	(721)	(1,024)	(1,089)
Reinsurers' and profit commissions		-	-	-	-	-	-
Exchange movement on foreign currency translation	(293)	(46)	(32)	(10)	38	24	-
Net investment income	59	109	346	308	406	375	354
Illustrative personal expenses:							
Managing agent's fee	(75)	(75)	(75)	(75)	(75)	(75)	(75)
Profit commission	(117)	(247)	(417)	(278)	(8)	(515)	(47)
Other personal expenses	-	(69)	(51)	(75)	(70)	(90)	(114)
Profit after illustrative personal expenses and profit commission	550	991	1,669	1,306	35	2,058	219

Operating expenses

Operating expenses, as set out below, are in line with expectations.

	2016 £'000	2015 £'000
Acquisition costs – brokerage and commissions	8,112	12,398
Ceding commission under quota share contract	70	3,706
Administrative expenses	1,760	881
Managing agency fee	90	419
Personal expenses	466	711
Operating expenses	10,498	18,115

Investment return

The quota share contract with Syndicate 4020 is written on a funds withheld basis. No funds are held directly by the Syndicate. Under the terms of the quota share agreement, an experience account is maintained and investment income receivable by Syndicate 4020 is allocated to the Syndicate based on the average balance of the experience account throughout the year.

Syndicate 4020 funds are actively managed by third party investment managers and the returns compared to benchmarks agreed as part of the investment guidelines. Syndicate 4020 has a diversified portfolio in corporate debt, cash, UK property funds and investment funds with an average duration that is appropriate compared to the expected liability duration.

The investment return for the 2014 YOA was £0.4m. The average experience account balance was £26.5m and the average return over the three years was 1.51%. Investment returns for the 2016 calendar year, as set out below, have been impacted by mark to market losses on the UK commercial property portfolio following the Brexit referendum result in June.

A summary of the calendar year investment performance of Syndicate 4020 is set out below:

	2016	2015
Average syndicate funds available for investment (US$'000)	668,224	726,200
Investment return for the year (US$'000)	826	10,717
Annualised investment return (%)	0.1%	1.5%

Financial position

The main components of the balance sheet are technical provisions and amounts due from Syndicate 4020 in respect of the quota share agreement.

Technical provisions include a provision for outstanding claims of £28.0m (2015: £25.5m) and a provision for unearned premiums of £5.1m (2015: £26.4m). No reinsurance protection has been purchased by the Syndicate. 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.

Amounts due from Syndicate 4020 in respect of the quota share agreement of £34.1m (2015: £44.4m) are receivable when the relevant YOA closes. The 2014 YOA was closed with effect from 31 December 2016 and the amounts due from Syndicate 4020 will be settled when the profits of the YOA are distributed in April 2017. It is currently anticipated that the 2015 YOA will close on 31 December 2017.

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 Syndicate 6105 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 Syndicate 6105 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 6105 intend to re-appoint KPMG LLP as auditors.

Future developments

The Syndicate has ceased underwriting. The capacity of Syndicate 4020 for the 2017 YOA is £300.0m (2016 YOA: £400.0m). Syndicate 3902, previously an incidental syndicate within the Syndicate, commenced underwriting as a full syndicate for the 2017 YOA with a capacity of £100.0m.

Principal risks and uncertainties

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.

Directors

The directors of ASML served from 1 January 2016 to the date of this report, unless stated otherwise. Shareholdings in the ultimate holding company of ASML, Ark Insurance Holdings Limited ("AIHL") are stated as at 31 December 2016.

Name	Date of appointment / resignation	AIHL B shares No.	AIHL G shares No.	AIHL H shares (2015) No.	AIHL H shares (2016) No.	AIHL H shares (2017) No.
I Beaton (Chief Executive)		*92,230	*121,788	386,341	494,516	494,516
N Bonnar		*92,230	*121,788	386,341	494,516	494,516
N Brothers	Appointed 15 November 2016	312	-	1,961	3,456	3,750
N Deshpande	Resigned 15 November 2016	4,886	23,787	3,863	4,945	-
D Foreman (Chairman)		23,526	123,689	-	-	-
P McIntosh		3,611	17,086	12,363	15,825	15,825
R Oakes (Non-executive)	Resigned 16 May 2016	-	-	-	-	-
N Smith		2,921	13,457	10,818	13,847	13,847
V Southey (Non-executive)	Resigned 31 July 2016	-	-	-	-	-
J Wardrop (Non-executive)	Appointed 1 January 2016	-	-	-	-	-
C Watson (Non-executive)		-	-	-	-	-
J Welman (Non-executive)	Appointed 1 April 2016	-	-	-	-	-

In 2016, the B and G shares of I Beaton and N Bonnar were converted into Preference 1 and Preference 2 shares. The rights of these shares are materially the same as those they replaced.

The principal risks of the Syndicate are set out in note 2 of the calendar year accounts.

N Bonnar
Active Underwriter
8 March 2017

Underwriting Year Distribution Accounts

2014 Year of Account

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and 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 financial statements at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The syndicate financial statements 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 financial statements, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to 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 syndicate financial statements; and
4. prepare the syndicate financial statements on the 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 financial statements comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Syndicate 6105 for the 2014 closed Year of Account

We have audited the Syndicate underwriting year accounts for the 2014 year of account of Syndicate 6105 for the three years ended 31 December 2016, as set out on pages 13 to 18 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

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 and 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 11, the Managing Agent is responsible for the preparation of the syndicate's underwriting year accounts and for being satisfied that they 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 law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatements, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or consistencies we consider the implications for our report.

We have audited the syndicate underwriting accounts, which comprise of the profit and loss account, the balance sheet as at 31 December 2016, the statement of cash flows and the related notes.

The underwriting year accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016. As a consequence of this, the residual risks to the members on the closed year have been minimised. Management have deemed the following risk disclosure requirements of FRS 102 to be not applicable to these underwriting accounts:

- Insurance risk
- Financial risk
- Credit risk
- Liquidity risk
- Market risk
- Capital management
- Fair value hierarchy disclosure on investments

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 2014 closed year of account;
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw.

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:

- adequate accounting records have not been kept; 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.

Ben Priestley
For and on behalf of KPMG LLP, Statutory Auditor, Chartered Accountants
15 Canada Square
London, E14 5GL
8 March 2017

Distribution accounts

Profit and loss account

2014 closed YOA for the three years ended 31 December 2016

	Notes	2014 £'000
Syndicate allocated capacity		59,961
Technical account		
Gross premiums written	3	38,662
Allocated investment return transferred from the non-technical account		355
Claims paid - gross amount		(14,432)
Reinsurance to close premium payable, net of reinsurance	5	(12,975)
Operating expenses	4	(8,310)
Balance on the technical account for general business		3,300
Non-technical account		
Investment income		355
Allocated investment return transferred to technical account		(355)
Profit for the 2014 closed YOA		3,300

The notes on pages 16 to 18 and 37 form part of these accounts

Balance sheet

2014 closed YOA as at 31 December 2016

	Notes	2014 £'000
Assets		
Debtors arising out of reinsurance operations		14,644
Other debtors	6	473
Total assets		15,117
Liabilities		
Amounts due to members	6	2,142
Reinsurance to close premium payable to close the account	5	12,975
Total liabilities		15,117

The notes on pages 16 to 18 and 37 form part of these accounts. The accounts were approved by the Board of Ark Syndicate Management Limited on 8 March 2017 and signed on its behalf by

N Smith
Finance Director
8 March 2017

Statement of cash flows

2014 closed YOA for the three years ended 31 December 2016

	Notes	2014 £'000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit on ordinary activities		3,300
Net reinsurance to close payable		12,975
Open year profit release		(1,158)
Other		(473)
Increase in debtors		(14,644)
Net cash inflow from operating activities		-

The quota share contract with Syndicate 4020 is written on a funds withheld basis. No funds are currently held directly by the Syndicate. The notes on pages 16 to 18 and 37 form part of these accounts.

Notes to the accounts

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 *Insurance Contracts* ("FRS 103") as issued in March 2014.

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.

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.

Claims Paid

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

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. 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.

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 1.24, Canadian dollars 1.66, Euro 1.17 and Australian dollars 1.71.

Profit commission

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

Notes to the accounts

2. Accounting policies (continued)

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 each open YOA during the calendar year in proportion to the average funds available for investment for Syndicate 4020, and the average experience account for Syndicate 6105. 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.

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.

3. Segmental Analysis

Ark management considers that it has one segment, being insurance and reinsurance risks underwritten at Lloyd's in the United Kingdom.

4. Operating expenses

	2014 £'000
Personal expenses	1,150
Loss on currency sales	1,758
Other expenses	5,402
	8,310

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

5. Reinsurance to close premium payable

	2014 £'000
Gross and net outstanding claims	5,270
Provision for gross and net claims incurred but not reported	7,705
	12,975

The reinsurance to close is effected to the 2015 YOA of Syndicate 4020.

Notes to the accounts

6. Reconciliation of members' balances

	2014
	£'000
Profit for the year of account	3,300
Open year distribution to members	(1,158)
Members subscriptions	(473)
At 31 December	1,669

Calendar Year Report & Accounts

2016

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the 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.

Independent auditors' report to the members of Syndicate 6105

We have audited the financial statements of Syndicate 6105 for the year ended 31 December 2016, as set out on pages 23 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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 and 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 auditors

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 21, the Managing Agent is responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 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 Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ben Priestley
For and on behalf of KPMG LLP, Statutory Auditor, Chartered Accountants
15 Canada Square, London, E14 5GL
8 March 2017

Income statement

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Technical account			
Earned premiums, net of reinsurance			
Gross premiums written	3	1,799	43,859
Change in the provision for unearned premiums			
Gross amount		23,589	(2,762)
		25,388	41,097
Allocated investment return transferred from the non-technical account	4	31	223
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(11,356)	(9,436)
Change in the provision for claims			
Gross amount		(898)	(11,170)
		(12,254)	(20,606)
Operating expenses	5	(10,498)	(18,115)
Balance on the technical account for general business		2,667	2,599
Non-technical account			
Investment income		31	223
Allocated investment return transferred to technical account		(31)	(223)
Profit for the financial year		2,667	2,599

Statement of other comprehensive income

	Notes	2016 £'000	2015 £'000
Profit for the financial year		2,667	2,599
Foreign exchange translation differences		671	(251)
		3,338	2,348

All operations are continuing. The notes on pages 26 to 37 form part of these accounts

Balance sheet

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Debtors arising out of reinsurance operations	7	34,100	44,392
Other debtors		950	1,102
Deferred acquisition costs		1,614	8,234
Total assets		36,664	53,728
Capital, reserves and liabilities			
Capital and reserves			
Members' balances attributable to underwriting participations	8	3,517	1,812
Liabilities			
Insurance liabilities:			
Provision for unearned premiums	9	5,106	26,447
Claims outstanding	9	28,041	25,469
		33,147	51,916
Total capital, reserves and liabilities		36,664	53,728

The notes on pages 26 to 37 form part of these accounts. The accounts were approved by the Board of Ark Syndicate Management Limited on 8 March 2017 and signed on its behalf by

N Smith
Finance Director
8 March 2017

Statement of cash flows

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Operating result		2,668	2,600
Change in gross technical provisions		(18,768)	14,250
Change in debtors		16,911	(14,235)
Investment return		(31)	(1,033)
Other		(611)	-
Net cash flows from operating activities		169	1,582
Investment income received		1,350	311
Investment management fees		(35)	(7)
Net cash flows from investing activities		1,315	304
Distribution profit		(326)	(549)
Open year release	8	(1,158)	(1,337)
Net cash flows from financing activities		(1,484)	(1,886)
Net (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

The quota share contract with Syndicate 4020 is written on a funds withheld basis and no funds are held directly by the Syndicate.

The notes on pages 26 to 37 form part of these accounts

Notes to the accounts

1 Statement of accounting policies

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in March 2014.

Basis of preparation

The financial statements are prepared using the historical cost convention except that financial investments and derivative financial instruments are stated at their fair value. All amounts presented are stated in Sterling, unless stated otherwise. The financial statements have been prepared on a going concern basis. The directors of ASML have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future.

Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause Ark to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Premiums written and earned

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.

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.

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 that 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 of 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. 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 amount 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.

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.

Notes to the accounts

1 Statement of accounting policies (continued)

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the US dollar, the currency of the primary economic environment in which the Syndicate operates ("functional currency"). The financial statements are presented in Sterling, being the presentation currency of the Syndicate.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the company considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Insurance receivables are classified as 'loans and receivables' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any impairment losses. Insurance payables are stated at amortised cost.

Other receivables

Other receivables are carried at amortised cost less any impairment losses.

Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the statement of profit or loss. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised separately on an amortised cost basis using the effective interest rate method for financial assets at fair value through the statement of profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

Other payables

Other payables are stated at amortised cost determined on the effective interest rate method.

2. Management of risk

Approach to risk management

Ark's core business relies on the assumption of internal and external risk within the appetites and tolerances established by the Board. Primarily Ark's business is the assumption of Insurance Risk and Market Risk, with the additional categories of Credit Risk, Liquidity Risk, Operational Risk and Group Risk. Managing these risks in a manner that is consistent with the strategy, appetites and tolerances established by the Board requires that Ark has in place a systematic, objective, and robust set of governance arrangements and processes for identifying and quantifying the risks to which it is exposed. This enables Ark to determine appropriate strategies and approaches for prevention and mitigation.

The key risks of the Syndicate are aligned to those of Syndicate 4020. Therefore, even though the Syndicate does not hold any cash or investments or purchase reinsurance, it is exposed to credit risk, market risk and liquidity risk inherent within Syndicate 4020.

The effectiveness with which Ark manages risk is a key determinant of the level of capital resources required to run the business and its ability to achieve its strategic objectives including, in relation to capital efficiency and the production of acceptable levels of return.

2. Management of risk (continued)

Insurance risk

This is the risk is the risk arising from the uncertainties in timing, frequency and severity of insured losses, relative to the expectations made at the time of business planning or underwriting. Ark's business is based on the seeking and assumption of insurance risk. The Syndicate writes a balanced and diversified book of business through a team of experienced underwriters with the objective of charging appropriate premiums to cover claims and operational costs whilst maximising the expected return on equity. Target returns are assessed each year, taking into account the insurance market outlook and realistic expectations of return on equity. Insurance risk comprises the following elements:

a) Exposure management risk

This is the risk of exposure to an event, or a series of events, which causes a potential financial loss that exceeds expectations. The nature of Ark's business and underwriting portfolio includes the assumption of a high degree of catastrophe, non-catastrophe and accumulative exposure to different events. This is managed through the diversification of business lines and geographical areas to balance exposures, with the aim of reducing the risk that one event, or a series of events, will cause unacceptable loss to the business. Ark's catastrophe and non-natural catastrophe modelling processes incorporate Ark-specific disaster scenarios, aggregate caps and cross-class modelling which reflect the diversity of the portfolio.

b) Underwriting quality risk

This is the risk of inappropriate underwriting or the inadequate pricing of risks which can lead to unprofitable business or inefficient line utilisation and risk selection. The management of underwriting quality can be difficult in a competitive market where underwriters are often under pressure to meet premium and pricing targets. Ark operates an underwriting controls framework which includes individual underwriting authorities, continual quality monitoring and peer review of risks. The framework aims to ensure a high quality of underwriting through monitoring of pricing and rate change, contract certainty and agreement of appropriate terms and conditions.

c) Delegated underwriting quality risk

This is the risk of exposure to inappropriate risks through the delegation of underwriting authorities to third parties or the delegation of authority to inappropriate third parties. The nature of delegated underwriting naturally increases the risk of underwriting, through the ability of third parties being able to bind the Syndicate to risks without detailed review of the risk involved. This risk is mitigated through the application of strict guidelines, managed by a dedicated team within the Compliance department. This team reviews coverholder and third party authority ("TPA") approvals pre-bind and monitors a programme of audits to ensure compliance with regulations and guidelines.

d) Claims management risk

This is the risk that claims made are not managed in an appropriate manner, leading to material adverse results through an increase in claims, payments or exposure to legal issues. The management of claims is conducted in accordance with claims procedures, which are, in turn, in line with the Lloyd's Minimum Standards. This includes the management of claims workflows and response times, reviews of major claims to ensure accurate estimates, regular reserving reviews and management of complaints. These processes are enhanced through communication with underwriting teams to understand the policy or portfolio and with the Compliance department to manage coverholders and TPAs.

e) Reserving risk

This is the risk that the estimated claims reserves differ materially from the ultimate cost of the claim or event. Reserving risk is the second largest risk category in the Internal Model and has the potential to significantly impact profitability. The potential impact is controlled through the use of a mix of actuarial models and methods, industry data and underwriter experience to produce reliable estimates that are based on up to date information, and consistently applied over time and across classes of business. These estimates are subject to an external review each year.

f) Reinsurance purchasing

This is the risk of purchasing insufficient or inappropriate reinsurance, or the exhaustion of reinsurance, leading to excessive or unexpected losses. The process of reinsurance purchasing forms a major part of Ark's business planning process and includes the use of the Internal Model as a tool for decision making. Reinsurance is purchased for a mixture of risk and event losses across the majority of classes, in a mixture of excess of loss and proportional cover, dependent on the scale and characteristics of the class or treaty concerned. Ark also employs controls and monitoring around the use of insurers, credit ratings and concentration risk.

2. Management of risk (continued)

g) Underwriting management

This is the risk that returns from the policies written are different from expectations or are not in line with the business plan. Examples include a failure to reduce or exit from unprofitable business or a failure of underwriters to follow the business plan which sets out the parameters, classes, limitations and profitability expectation of underwriting teams for the forthcoming year. Communication of the business plan to the underwriting teams is therefore imperative. The performance of each class and the syndicate portfolio as a whole is reviewed against the business plan on a regular basis by the Board and various committees using information available from the management information portal. Various controls are in place to ensure constant vigilance including underwriting authorities, monitoring of risk codes, geographical aggregates and data quality.

Sensitivity to net claim liability movements	2016 Impact on profit £'000	2015 Impact on profit £'000	2016 Impact on net assets £'000	2015 Impact on net assets £'000
5% increase in total net claim liabilities	(1,402)	(2,596)	(1,402)	(2,596)
5% decrease in total net claim liabilities	1,402	2,596	1,402	2,596

Credit risk

Credit risk arises when counterparties fail to meet their obligations in full as they fall due. The key areas where credit risk can arise include reinsurers, brokers, coverholders and investment counterparties.

The probability of reinsurer default is modelled by the Actuarial team as part of the Internal Model. Ark seeks to reduce this risk by avoiding over-reliance on specific reinsurers through the application of concentration limits and thresholds. This is monitored by the Security Advisory Committee ("SAC"). Prior to the transaction of business, broker and coverholder default is mitigated through the application of due diligence on new and existing counterparties, and a rolling audit schedule post-bind. Overdue premium is also monitored by class, broker and age of debt. The investment portfolio is managed in line with asset allocation guidelines which are monitored by type, counterparty, quality and duration. Ark outsources the management of a significant proportion of its investment portfolio to managers who monitor and report on performance and adherence to guidelines on a regular basis.

To assist in the understanding of credit risk, ratings issued by A.M. best, Moody's and Standard & Poors ("S&P") are used, which are categorised below:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D, E,F,S	Ca to C	R, (U, S) 3

2016 – credit risk, Syndicate 4020	Tier 1 £'000	Tier 2 £'000	Tier 3 £'000	Tier 4 £'000	Unrated £'000	Total £'000
Financial assets at fair value	177,931	369	3,799	-	316,000	498,099
Reinsurance assets	97,083	-	-	-	7	97,090
Cash and cash equivalents	12,557	-	-	-	-	12,557
	287,571	369	3,799	-	316,007	607,746

2. Management of risk (continued)

2015 – credit risk, Syndicate 4020	Tier 1 £'000	Tier 2 £'000	Tier 3 £'000	Tier 4 £'000	Unrated £'000	Total £'000
Financial assets at fair value	217,555	1,273	3,922	-	249,189	471,939
Reinsurance assets	70,661	-	-	-	2,196	72,857
Cash and cash equivalents	13,561	-	-	-	-	13,561
	301,777	1,273	3,922	-	251,385	558,357

Insurance receivables and other receivables balances have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Inwards premium receivables are credit controlled by third-party managers. Ark monitors third party coverholders' performance and their financial processes through the coverholder management team. A provision for doubtful debts is included within reinsurance receivables of Syndicate 4020 of £0.8m (2015: £0.6m).

Market risk

This is the risk that the value of assets and liabilities changes as a result of market movements or events e.g. foreign exchange rates, interest rates and market prices.

a) Foreign exchange risk

The functional currency of the Syndicate is the US dollar and the presentation currency in which the Syndicate reports its results is Sterling. Therefore the Syndicate is exposed to fluctuations in exchange rates for non-dollar denominated transactions. The Syndicate operates in five main currencies: US dollars, Sterling, Canadian dollars, Australian dollars and Euros.

2016	Sterling £'000	Euros £'000	Canadian dollars £'000	Australian dollars £'000	US dollars £'000	Total £'000
Assets	(11,477)	3,904	2,014	975	41,249	36,665
Liabilities	2,014	1,049	817	279	28,989	33,148
Net assets	(13,491)	2,855	1,197	696	12,260	3,517

2015	Sterling £'000	Euros £'000	Canadian dollars £'000	Australian dollars £'000	US dollars £'000	Total £'000
Assets	(5,276)	4,492	2,151	772	51,589	53,728
Liabilities	5,112	8,461	1,246	677	36,420	51,916
Net assets	(10,388)	(3,969)	905	95	15,169	1,812

The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the US dollar against the value of the main currencies, simultaneously.

	2016 Impact on profit £'000	2015 Impact on profit £'000	2016 Impact on net assets £'000	2015 Impact on net assets £'000
USD weakens by 5% against other currencies	(186)	(338)	(186)	(338)
USD strengthens by 5% against other currencies	205	338	205	338

2. Management of risk (continued)

b) Interest rate risk

Some of the financial instruments held by Syndicate 4020, including certain financial assets at fair value, cash and cash equivalents and borrowings, are exposed to movements in market interest rates. Interest rate risk is managed by primarily investing in short-duration financial assets and cash and cash equivalents. The duration of assets are monitored on a regular basis. The duration of assets exposed to movements in market interest rates is 1.29 (2015: 1.89). Changes in interest rates, with all other variables constant, would result in changes in the capital value of debt securities and borrowings as well as subsequent interest receipts and payments.

Sensitivity to interest rate risk	2016 Impact on profit £'000	2015 Impact on profit £'000	2016 Impact on net assets £'000	2015 Impact on net assets £'000
50 basis point increase in interest rates	(65)	(97)	(65)	(97)
50 basis point decrease in interest rates	66	98	66	98

c) Price risk

Financial assets recognised at fair value held by Syndicate 4020 are exposed to movements in market prices.

Sensitivity to price risk	2016 Impact on profit after tax £'000	2015 Impact on profit after tax £'000	2016 Impact on net assets £'000	2015 Impact on net assets £'000
5% increase in FTSE 100 and S&P 500	486	655	486	655
5% decrease in FTSE 100 and S&P 500	(474)	(788)	(474)	(788)

Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when they fall due without incurring unreasonable penalties or expense costs. The risk is minimised by holding sufficient liquid assets to enable large and unexpected payments, predominately claims, to be made in all but the most extreme scenarios

Ark's Catastrophe Event Response Plan provides information to quantify liquidity implications of losses, reinsurance recoveries, cashflows and trust funds in the event of a catastrophe or large loss. The process is also stress tested using historic scenarios to determine the behaviour of the portfolio following an event or series of events.

2016 – maturity analysis, Syndicate 4020	<1yr £'000	1-2yrs £'000	2-3yrs £'000	3-5yrs £'000	>5yrs £'000	Total £'000
Financial assets at fair value	427,452	51,495	11,845	4,105	3,202	498,099
Cash and cash equivalents	12,557	-	-	-	-	12,557
	440,009	51,495	11,845	4,105	3,202	510,656

2015 – maturity analysis, Syndicate 4020	<1yr £'000	1-2yrs £'000	2-3yrs £'000	3-5yrs £'000	>5yrs £'000	Total £'000
Financial assets at fair value	429,409	28,057	4,430	7,383	2,660	471,939
Cash and cash equivalents	13,561	-	-	-	-	13,561
	442,970	28,057	4,430	7,383	2,660	485,500

In the above analysis, assets with no duration are included as "less than one year".

2. Management of risk (continued)

Net claim liability cashflow timing	<1yr £'000	1-3yrs £'000	3-5yrs £'000	>5yrs £'000	Total £'000	Weighted average term of settlement (years)
2016	139,423	156,356	74,815	91,523	462,117	2.94
2015	113,199	131,410	65,004	80,796	390,409	3.05

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. Risks are identified within the risk register and are modelled via operational scenarios. Ark aims to minimise its exposure to operational risk by monitoring controls and management information in the form of key indicators that indicate changes to the risk profile.

Ark outsources a number of key functions, such as investment management, inwards premium credit control and human resources. This introduces the risk that the Syndicate may be exposed to liability or may fail to achieve its objectives due to inappropriately arranged, or a failure of, outsource arrangements. This risk is mitigated through pre-contract due diligence and performance review throughout the contract life cycle.

Ark recognises that the success of a business depends on the ability to retain the services of existing key staff and to attract and retain additional people in the future, both in underwriting and support functions. This risk is managed through the provision of sufficient education and development, support for qualifications and competitive remuneration packages.

Ark is also impacted by the risk of information technology system failure or disruption. This is mitigated through a control framework which includes network security, data, hardware and applications and is complimented by detailed planning around back-ups, contingency and disaster recovery, all of which are monitored and tested on a regular basis.

Regulatory risk

Regulatory risk is the risk of censure following a breach of regulatory or legal requirements, or a failure to respond to deadlines or information requests from regulators in a satisfactory and timely manner.

Ark is regulated, overseen or required to report to the PRA, FCA, Lloyd's and other overseas regulators. Each body requires adherence to specific requirements and guidelines. In order to mitigate this, Ark seeks to conform to the regulations as they apply to each functional area. Much of this is operated through training and awareness to promote correct behaviour at source, as opposed to corrective action at a later stage. The overall risk is managed by the Compliance department which seeks to ensure that deadlines are met and changes in regulation are communicated in a timely manner.

Capital management risk

Capital is primarily required to support underwriting at Lloyd's. Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives.

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement ("SCR") for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

Each member of a syndicate is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating. Each member's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, an uplift is applied by Lloyd's to the member's capital requirement, known as the Economic Capital Assessment ("ECA").

2. Management of risk (continued)

The Syndicate is required to produce an individual capital assessment ("ICA") which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that ICAs are consistent across the market. The current capital assessment has been established using our Solvency II internal model which has been run within the ICA regime as prescribed by Lloyd's.

3. Segmental analysis

Ark management considers that it has one segment, being insurance and reinsurance risks underwritten at Lloyd's in the United Kingdom.

4. Investment income

	2016 £'000	2015 £'000
Interest & dividends on financial investments at fair value through the income statement	908	243
Interest on cash and cash equivalents	233	53
Gains on the realisation of investments	408	27
Unrealised gains on investments	806	308
Losses on the realisation of investments	(199)	(11)
Unrealised losses on investments	(2,091)	(390)
Investment management charges	(34)	(7)
	31	223

5. Operating expenses

	2016 £'000	2015 £'000
Acquisition costs	8,112	12,398
Ceding commission under quota share contract	70	3,706
Administrative expenses	1,760	822
Managing agency fee	90	419
Personal expenses	466	770
	10,498	18,115

The Syndicate is charged its share of expenses incurred by Syndicate 4020. Administrative expenses incurred include:

	2016 £'000	2015 £'000
Audit fees	50	42
Performance related pay	1,008	641

Notes to the financial statements

6. Directors and employees

All executive directors and staff are employed and remunerated by ASML. Salary costs and directors remuneration are disclosed in the financial statements of ASML. The Syndicate has not been charged with any performance related remuneration paid to directors of ASML. Performance related remuneration charged to the Syndicate is set out in note 5.

Emoluments of the Active Underwriter	2016 £'000	2015 £'000
Gross emoluments excluding pension contributions	428	396
Contributions to money purchase pension schemes	-	25
	428	421

7. Debtors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year	14,643	2,976
Due after one year	19,457	41,416
	34,100	44,392

8. Reconciliation of members' balances

2016	2015 YOA £'000	2014 YOA £'000	Total £'000
1 January	(1,140)	2,477	1,337
Profit for the year	2,519	148	2,667
Other recognised gains	(4)	675	671
Distribution	-	(1,158)	(1,158)
At 31 December	1,375	2,142	3,517

2015	2015 YOA £'000	2014 YOA £'000	2013 YOA £'000	Total £'000
1 January	-	(471)	1,269	798
Profit for the year	(1,096)	3,107	588	2,599
Other recognised gains	(44)	(159)	(45)	(248)
Distribution	-	-	(1,337)	(1,337)
At 31 December	(1,140)	2,477	475	1,812

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

9. Insurance liabilities

	2016 £'000	2015 £'000
Claims reported and loss adjustment expenses	10,304	7,462
Claims incurred but not reported	17,737	18,007
Gross claims liabilities	28,041	25,469
Unearned premiums	5,106	26,447
	33,147	51,916

Movements in insurance liabilities are as follows:

Claims and loss adjustment expenses	2016 Gross £'000	2015 Gross £'000
At 1 January	25,469	15,069
Claims paid	(11,356)	(9,436)
Movement arising from current years	11,066	19,593
Movement arising from prior years	1,188	1,013
Net exchange differences	1,674	(770)
At 31 December	28,041	25,469

Unearned premiums	2016 Gross £'000	2015 Gross £'000
At 1 January	26,447	22,597
Increase in the year	1,799	43,859
Release in the year	(25,389)	(41,098)
Net exchange differences	2,249	1,089
At 31 December	5,106	26,447

Assumptions and processes

a) The reserving process

Ark uses a quarterly process to set its reserves. Several actuarial and statistical methods are used to estimate the ultimate premium and claims costs, with the most appropriate method selected depending on the nature of each class of business. In addition, the underwriting teams review the development of the incurred loss ratio over time, work with the claims team to set reserve estimates for identified claims and utilise their detailed understanding of both risks underwritten and the nature of the claims to establish an alternative estimate of ultimate claims cost, which is compared to the actuarially established figures. The Reserving Committee then determines the reserves held for accounting purposes. An annual independent actuarial review is undertaken to ensure that the reserves established are not lower than an independently established best estimate.

Chain-ladder techniques are applied to premiums, paid claims and incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year. The Bornhuetter-Ferguson method uses a combination of a benchmark / market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims observed to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.

9. Insurance liabilities (continued)

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwriting years within the same class of business. As such, there are many assumptions used to estimate general insurance liabilities.

Triangulations of the paid / outstanding claim ratios are also reviewed as a way of monitoring any changes in the strength of the outstanding claim estimates between underwriting years so that adjustments can be made to mitigate any subsequent over / (under)reserving.

Where significant large losses impact an underwriting year (e.g. the New Zealand and Japan earthquakes in 2010 and 2011), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected. Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt.

b) Major assumptions

The main assumption underlying these techniques is that the Syndicate's past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid and incurred losses, average costs per claim and claim numbers for each underwriting year based on the observed development of earlier years. Throughout, judgement is used to assess the extent to which past trends may not apply in the future; for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

The loss development tables below provide information about historical claims development by the identified operating segments. The tables are by underwriting year which in our view provides the most transparent reserving basis. The top part of the table illustrates how the estimate of the claims ratio for each underwriting year has changed at successive year ends. The bottom half of the table reconciles the claims to the amount appearing in the balance sheet.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The Syndicate believes that the estimate of total claims liabilities selected is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

	2015	2014
Gross claims	£'000	£'000
1 year	12,575	13,367
2 years	24,656	25,853
3 years	-	28,039

	Gross and net All years £'000
Total claims	52,695
Less paid claims	(24,654)
Total claims liabilities	28,041

On a whole account basis, the claims experience in 2016 has been better than expected based on the prior year reserves.

Notes to the accounts

10. Related parties

The ultimate parent company of ASML is AIHL. The registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. The immediate parent company of ASML is Group Ark Insurance Holdings Limited ("GAIHL").

Swiss Reinsurance Company Limited, which forms part of the Swiss Reinsurance group, holds 11.69% of the ordinary share capital of AIHL until 30 June 2016,when the entire holding was purchased by AIHL. Syndicate 4020 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 Syndicate 4020 to Swiss Re in the year amounted to £1.7m (2015: £1.9m).

C Watson is a director of Validus Holdings Ltd. Syndicate 4020 has purchased reinsurance protection on normal commercial terms and at arms length from the Validus Group. Premiums paid by Syndicate 4020 in the year amounted to £1.7m (2015: £1.9m).

Until his resignation on 16 May 2016, R Oakes is a non-executive director of Cathedral Underwriting Limited, the managing agent of Syndicate 2010 and Syndicate 3010. Syndicate 4020 has purchased reinsurance protection from Syndicate 2010. Premiums paid by Syndicate 4020 in the year amounted to less than £0.1m (2015: less than £0.1m). Also, Syndicate 4020 provided reinsurance under separate contracts to Syndicate 2010. Gross premium income, excluding brokerage and commissions, due to Syndicate 4020 under these contracts amounted to £0.1m (2015: £Nil). All transactions were on normal commercial terms and at arms length.

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 Syndicate 4020 operations. No prrofit commission has been accrued by GAIHL under this contract (2015: £2.0m).

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. The actuarial consultant, C Griffiths, is a director of AIHL. Fees paid by GAIHL to Mercury in the year in respect of these services amounted to £0.1m (2015: £0.1m).

Syndicate 4020 has made investments through Mercury in assets exposed to catastrophe insurance risk through various Industry Loss Warranty arrangements. At the year end, included within the investments of Syndicate 4020 is £25.3m relating to these assets (2015: £19.3m). Investment income of £2.2m generated by these assets has been recognised in the year (2015: £1.6m). No fee is paid by Syndicate 4020 to Mercury in respect of these arrangements.

Syndicate 4020 underwrites business through Cove Program Managers Limited ("Cove") under a binding authority. ASML holds 14.52% of the ordinary share capital of Cove and I Beaton serves without fee as a non-executive director. Gross premium income, excluding brokerage and commissions, due to Syndicate 4020 under this binding authority amounted to £0.6m (2015: £1.8m). Commissions paid by Syndicate 4020 in the year to Cove amounted to £0.3m (2015: £1.0m).

Ark Underwriting Inc. ("AUI") is a wholly owned subsidiary of ASML, which facilitates the introduction of US Reinsurance Business into Syndicate 4020 through a binding authority. AUI earns commission set on normal commercial terms. In 2016 the amount paid in commission to AUI was £0.6m (2015: £0.6m).

On 3 October 2016, GAIHL acquired the entire share capital of Accident & Health Underwriting Limited ("AHU"). Syndicate 4020 underwrites business through AHU under a binding authority. Gross premium income, excluding brokerage and commissions, due to Syndicate 4020 under this binding authority amounted to £0.6. Commissions paid by Syndicate 4020 in the year to AHU amounted to £1.9m and a profit commission was £0.2m. N Brothers serves without fee as a director of AHU. GAIHL also became a member controlling 50% of Accident & Health Claims Services LLP ("AHC"), the other 50% being controlled by AHU. AHC provides claims handling services to Syndicate 4020. Fees paid in the year by Syndicate 4020 in respect of these services amounted to £0.3m.

I Beaton is a director of Innova Re Investment Services Limited ("IRIS"), an investment advisory company. GAIHL owns 55% of the ordinary share capital of the ultimate parent company of IRIS. ASML has entered into a contract on normal commercial terms and at arms length with IRIS for the provision of investment advisory services. Fees paid by ASML to IRIS in the year in respect of these services amounted to £1.1m.