



Report & Financial Statements

Ark Corporate Member Limited

Registered number: 6081055

2015

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## Directors and administration

### Directors

N Bonnar  
N Deshpande  
N Smith  
C Watson (Chairman)

### Company secretary

J Masson

### Registered office

30 Fenchurch Avenue  
London  
EC3M 5AD

### Company registration number

6081055

### Bankers

Lloyds Banking Group plc  
PO Box 72  
Bailey Drive  
Gillingham Business Park  
Kent  
ME8 0LS

### Registered auditors

KPMG LLP  
15 Canada Square  
London  
E14 5GL

## Directors' report

The directors present their annual report and financial statements for the year to 31 December 2015.

### Group structure

The key trading companies within the Ark group ("the group") are as follows:

Company name	Short name	Place of incorporation	Principal activity / function
Ark Insurance Holdings Limited	AIHL	Bermuda	Ultimate holding company
Ark Syndicate Management Limited	ASML	UK	Managing agent of Syndicate 4020 ("the Syndicate") and Special Purpose Syndicate 6105 ("Syndicate 6105")
Ark Corporate Member Limited	ACML	UK	Corporate member, participates on the 2015, 2014 and 2013 years of account ("YOA") of the Syndicate
Ark Corporate Member (No. 2) Limited	ACML2	UK	Corporate member, participates on the 2015 and 2014 YOA of the Syndicate
Group Ark Insurance Limited	GAIL	Bermuda	Class III reinsurer, writes 90% quota share of ACML, provides Funds at Lloyd's ("FAL") on behalf of ACML to support the Syndicate

### Directors and Directors interests

The directors served from 1 January 2015 to the date of this report, unless stated otherwise. Shareholdings are stated as at 31 December 2015.

Name	Date of appointment / resignation	AIHL B shares No.	AIHL G shares No.	AIHL H shares (2015) No.	AIHL H shares (2016) No.
N Bonnar		92,230	121,788	386,341	494,516
N Deshpande		11,955	23,787	3,863	4,945
N Smith		7,147	13,457	10,818	13,847
C Watson (Chairman)		-	-	-	-

### Disclosure of information to auditors

The directors of the company 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 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 are aware of that information.

### Accounting policies

The financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") for the first time, the impact of which is set out in note 1. The financials statements are presented in US dollars, the functional currency of the company.

### Dividends

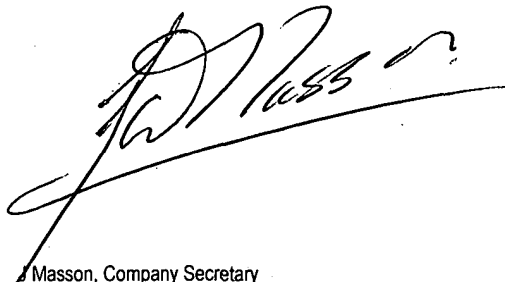
No dividend was paid in the year (2014: Nil). No dividend is proposed.

## Directors' report

### Auditors

KPMG LLP have expressed their willingness to continue in office as auditors to the company. The company has an elective resolution in place under Section 487(2) of the Companies Act 2006 to dispense with the obligation to appoint auditors annually.

By order of the Board

A handwritten signature in black ink, appearing to read 'J. Masson', is written over a horizontal line.

J. Masson, Company Secretary

15 September 2016

## Strategic report

The Strategic Report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The principal activity of the company is that of a Lloyd's corporate member and participates on the 2015, 2014 and 2013 YOA of the Syndicate. The principal activity of the Syndicate is the underwriting of direct and reinsurance business in the Lloyd's market.

The company has entered into a number of whole account quota share reinsurance contracts with third parties, protecting its participation on the 2015, 2014 and 2013 YOA of the Syndicate. The company has also entered into, at arms length, a 90% whole account quota share reinsurance contract with GAIL, protecting its retained participation on the Syndicate. GAIL has provided FAL on behalf of the company in respect of its participation on these years.

Gross written premium income for the year was USD446.0 (2014: USD453.1m). The profit after taxation for the year was USD8.5m (2013: USD15.5m).

The directors believe that the key performance indicators ("KPIs") of the Syndicate best represent the KPIs of the company. The result for the Syndicate for the year together with KPIs is shown below:

	2015	2014
Profit for the financial year (£'000)	26,704	48,641
Claims ratio (%)	43.6%	44.1%
Expenses ratio (%)	48.7%	44.2%
Combined ratio (%)	92.3%	88.3%

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.

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

Technical provisions include a provision for outstanding claims of USD617.8m (2014: USD684.2m) and a provision for unearned premiums of USD243.6m (2014: USD255.8m). The reinsurers' share of technical provisions is USD234.7m (2014: USD243.9m) in respect of unearned premiums, and USD563.5m (2014: USD638.2m) in respect of 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 USD665.7m (2014: USD745.0m) and are actively managed by third party investment managers. The Syndicate has established a diversified investment portfolio with a mix of cash, UK property, investment funds and corporate debt securities.

The principal risks and uncertainties of the company are aligned with the Syndicate and are set out in note 2 to the accounts. ASML has developed and maintains a risk register within its risk management framework for the Syndicate. Identified risks are grouped into major risk categories according to their nature, and by whom they are managed. 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.

The company will participate on the 2016 YOA of the Syndicate and has entered into a number of whole account quota share reinsurance contracts with third parties, protecting its participation on that YOA. The company has also entered into, at arms length, a 90% whole account quota share reinsurance contract with GAIL. The capacity of the Syndicate for the 2016 YOA is £400.0m (2015 YOA: £340.0m).

By order of the Board

J Masson

Company Secretary

15 September 2016

Ark Corporate Member Limited

## Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the balance sheet of the company [and enable them to ensure that its financial statements comply with the Companies Act 2006]. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are 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 Ark Corporate Member Limited

We have audited the financial statements of Ark Corporate Member Limited for the year ended 31 December 2015 set out on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the 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 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](http://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 company's affairs as at 31 December 2015 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 Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

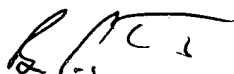
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Ben Priestley (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

15 September 2016

Ark Corporate Member Limited

## Income statement

For the year ended 31 December 2015

	Notes	2015 USD'000	Restated 2014 USD'000
Revenue			
Gross premiums written	3	431,713	453,088
Outward reinsurance premiums		(309,969)	(319,903)
Net premiums written		121,744	133,185
Gross premiums earned		441,021	481,437
Premiums ceded to reinsurers		(316,265)	(338,416)
Net premiums earned		124,756	143,021
Investment result	4	878	2,624
Other revenues		5,218	9,571
Total revenue		130,852	155,216
Expenses			
Claims and claim adjustment expenses		(192,934)	(233,750)
Reinsurance recoveries		186,605	220,677
Claims and claim adjustment expenses, net of reinsurance		(6,329)	(13,073)
Expenses for the acquisition of insurance contracts		(113,106)	(121,290)
Operating expenses	5	(3,371)	(3,510)
Total expenses		(122,806)	(137,873)
Results of operating activities and profit before tax		8,046	17,343
Taxation charge	6	445	(1,831)
Profit for the year after tax		8,491	15,512

## Statement of comprehensive income

	Notes	2015 USD'000	Restated 2014 USD'000
Profit for the year after tax		8,491	15,512
Other comprehensive income - items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		-	-
		8,491	15,512

# Balance sheet

As at 31 December 2015

	Notes	2015 USD'000	2014 USD'000
<b>Assets</b>			
Financial assets carried at fair value	7	649,309	726,785
Deferred acquisition costs	8	68,257	69,961
Insurance receivables	9	156,659	163,851
Reinsurance assets	10	797,759	882,136
Other receivables		15,424	25,586
Cash and cash equivalents	11	16,413	18,162
Prepayments and accrued income		3,041	4,936
<b>Total assets</b>		<b>1,706,862</b>	<b>1,891,417</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Called up share capital	12	-	-
Profit and loss account		23,226	14,735
<b>Total equity</b>		<b>23,226</b>	<b>14,735</b>
<i>Liabilities</i>			
Insurance liabilities	13	861,383	950,425
Other payables	14	795,036	904,776
Deferred taxation	15	3,154	5,506
Accruals and deferred income		24,063	15,975
<b>Total liabilities</b>		<b>1,683,636</b>	<b>1,876,682</b>
<b>Total equity and liabilities</b>		<b>1,706,862</b>	<b>1,891,417</b>

The financial statements were approved by the Board of Ark Corporate Member Limited on 15 September 2016 and signed on its behalf by



N Smith, Director  
15 September 2016

## Statement of changes in equity

	Share capital USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2013	-	26,943	26,943
Profit for the year	-	15,512	15,512
Dividends paid	-	(27,720)	(27,720)
At 31 December 2014 (restated)	-	14,735	14,735
Profit for the year	-	8,491	8,491
At 31 December 2015	-	23,226	23,226

## Notes to the financial statements

### 1. Statement of accounting policies

The financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102").

This is the first set of financial statements prepared in accordance with FRS 102. The transition from old UK GAAP to FRS 102 has resulted in certain changes to the way the performance of the Company is measured, the impact of which is set out in the income statement. The transition has not affected the financial position of the Company.

Under old UK GAAP, transactions in non-Sterling currencies were translated at the average rates of exchange for the year, realised exchange differences were included in the income statement and operating expenses and assets and liabilities were translated at the closing rate of exchange with exchange differences recorded as a movement in reserves. The treatment of foreign exchange movements under FRS 102 are set out below.

All amounts presented are stated in US dollars, unless stated otherwise. Comparative information previously stated in Sterling has been converted to US dollars using the average exchange rate for the years 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. Assets and liabilities have been converted to US dollars using the period end rate.

#### 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. The financial statements have been prepared on a going concern basis. The directors of the company have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

The company underwrites as a corporate members of Lloyd's on syndicates managed by ASML. In view of the several liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the financial statements.

The company is considered to be a qualifying entity (for the purposes of FRS) and has applied exemptions available under FRS 102 in respect of the requirement to include a cash flow statement and related notes.

#### 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 inception 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.

#### 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.

#### 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.

## Notes to the financial statements

### 1. Statement of accounting policies (continued)

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.

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. 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.

#### 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 company operates (the "functional currency"). The financial statements are presented in US dollars, being the functional and presentation currency of the company.

##### *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.

#### Financial assets

Financial assets are recognised in the balance sheet at such time as the company becomes a party to the contractual provisions of the asset. Purchases and sales of financial assets are recognised on the trade date, which is the date the company commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the company's obligations specified in the contract expire, are discharged or cancelled.

On acquisition of a financial asset, the company is required to classify the asset into one of the following categories: financial assets at fair value through the statement of profit or loss, loans and receivables, assets held to maturity and assets available for sale. The company has classified its investments as fair value through the statement of profit or loss because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the company's key management. The company's investment strategy is to invest and evaluate their performance with reference to their fair values.

## Notes to the financial statements

### 1. Statement of accounting policies (continued)

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. When available, the company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the company establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are continually measured at fair value, and changes therein are recognised in the statement of profit or loss. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately as set out below.

#### 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.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as loans and receivables and carried at amortised cost less any impairment losses.

## Notes to the financial statements

### 1. Statement of accounting policies (continued)

#### Taxation

The company is taxed in the UK on its share of the underwriting results declared by the Syndicate and these are deemed to accrue evenly over the calendar year in which they are declared. The results of the Syndicate included in the financial statements relate to the open years of account and will only be declared for tax purposes in the year following the closure of the year of account. Other profits arising in the UK are assessable to tax in the same year as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

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

### 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 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.*

#### Insurance risk

This 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 company 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.

## Notes to the financial statements

### 1. Management of risk (continued)

#### *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 company 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.

#### *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.

## Notes to the financial statements

### 2. Management of risk (continued)

The table below gives an indication of the impact on profit after tax and net assets of a five per cent increase or decrease in total net claim liabilities:

	2015	2014	2015	2014
	Impact on profit after tax USD'000	Impact on profit after tax USD'000	Impact on net assets USD'000	Impact on net assets USD'000
5% increase in total net claim liabilities	(2,139)	(2,693)	(2,139)	(2,693)
5% decrease in total net claim liabilities	2,139	2,693	2,139	2,693

#### 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

The following tables summarise the concentrations of credit risk:

	Tier 1	Tier 2	Tier 3	Tier 4	Unrated	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
2015						
Financial assets at fair value	299,319	1,752	5,396	-	342,842	649,309
Reinsurance assets	120,608	-	-	-	438,015	558,623
Cash and cash equivalents	16,413	-	-	-	-	16,413
	436,340	1,752	5,396	-	780,857	1,224,345

	Tier 1	Tier 2	Tier 3	Tier 4	Unrated	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
2014						
Financial assets at fair value	535,044	-	-	-	191,741	726,785
Reinsurance assets	96,202	327	-	-	541,679	638,208
Cash and cash equivalents	181,182	-	-	-	-	18,162
	649,408	327	-	-	733,420	1,383,155

## Notes to the financial statements

### 2. Management of risk (continued)

Insurance receivables and other receivables balances held by the company 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 USD0.7m (2014: USD2.2m).

#### 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 company and its main trading entities is the US dollar and the presentation currency in which the company reports its results is the US dollar. Therefore the company is exposed to fluctuations in exchange rates for non-dollar denominated transactions.

The company operates in five main currencies: US dollars, Sterling, Canadian dollars, Australian dollars and Euros. The underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the capital required to underwrite business is materially affected by any future movements in exchange rates.

The following table summarises the carrying value of assets and liabilities categorised by the company's main currencies:

	Sterling USD'000	Euros USD'000	Canadian dollars USD'000	Australian dollars USD'000	US dollars USD'000	Total USD'000
<b>2015</b>						
Assets	11,185	6,386	3,784	2,143	1,683,364	1,706,862
Liabilities	23,629	10,690	3,160	2,280	1,643,877	1,683,636
Net assets	(12,444)	(4,304)	624	(137)	39,487	23,226
<b>2014</b>						
Assets	12,632	5,854	4,605	2,466	1,865,860	1,891,417
Liabilities	28,959	5,010	3,463	2,066	1,837,184	1,876,682
Net assets	(16,327)	844	1,142	400	28,676	14,735

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 other main currencies, simultaneously.

	2015 Impact on profit after tax USD'000	2014 Impact on profit after tax USD'000	2015 Impact on net assets USD'000	2014 Impact on net assets USD'000
USD weakens by 5% against other currencies	(651)	(558)	(651)	(558)
USD strengthens by 5% against other currencies	651	558	651	558

#### b) Interest rate risk

Some of the financial instruments, including certain financial assets at fair value, cash and cash equivalents and borrowings, are exposed to movements in market interest rates. The group manages interest rate risk by primarily investing in short-duration financial assets and cash and cash equivalents. The duration of assets is monitored on a regular basis. The duration of assets exposed to movements in market interest rates is 1.89 (2014: 1.64).

## Notes to the financial statements

### 2. Management of risk (continued)

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. This would affect reported profits and net assets as indicated in the table below:

	2015	2014	2015	2014
	Impact on profit	Impact on profit	Impact on net	Impact on net
	after tax	after tax	assets	assets
	USD'000	USD'000	USD'000	USD'000
50 basis point increase in interest rates	130	172	130	172
50 basis point decrease in interest rates	(129)	(171)	(129)	(171)

#### c) Price risk

Financial assets recognised at fair value are exposed to movements in market prices. The sensitivity to price risk is presented below.

	2015	2014	2015	2014
	Impact on profit	Impact on profit	Impact on net	Impact on net
	after tax	after tax	assets	assets
	USD'000	USD'000	USD'000	USD'000
5% increase in FTSE 100 and S&P 500	809	326	809	326
5% decrease in FTSE 100 and S&P 500	(974)	(215)	(974)	(215)

#### 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 company participates as a corporate member on the Syndicate and is therefore not exposed to the liquidity risk associated with large and unexpected claim payments. The financial assets of the company are primarily held within syndicate trust funds. There is a charge over these assets in order to satisfy Lloyd's obligations and they are not readily available to the company.

Therefore, the key liquidity risk to the company is that funds are not available, either through retained earnings or through support from the parent company, to meet its operating expense obligations as they fall due.

#### 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 company 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.

## Notes to the financial statements

### 2. Management of risk (continued)

#### 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, licence 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").

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

	2015	Restated 2014
	USD'000	USD'000
Income on financial investments at fair value	887	1,481
Interest on cash and cash equivalents	200	185
Realised gains on investments	86	890
Unrealised gains on investments	1,736	794
Realised losses on investments	(76)	(262)
Unrealised losses on investments	(1,902)	(414)
Investment management charges	(53)	(50)
	878	2,624

## Notes to the financial statements

### 5. Operating expenses

	2015 USD'000	Restated 2014 USD'000
Administrative expenses	2,467	1,768
Managing agency fee	221	260
Personal expenses	682	1,482
	3,371	3,510

Operating expenses include amounts receivable by the auditor in respect of:

	2015 USD'000	Restated 2014 USD'000
Audit fees	23	25

All staff are remunerated by ASML. The directors do not receive any remuneration in respect of their services to the company.

### 6. Taxation

	2015 USD'000	Restated 2014 USD'000
Current tax:		
Expense for the year	3,033	4,762
Adjustment in respect of prior years	(1,361)	-
Total current tax	1,672	4,762
Deferred tax	(2,117)	(2,931)
Total tax charged to the income statement	(445)	1,831

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 20.2% applied to the results of the UK operations, as set out below:

	2015 USD'000	Restated 2014 USD'000
Profit on ordinary activities	8,046	17,343
UK corporation tax at 20.2% (2014: 21.5%)	1,629	3,729
Taxation effect of:		
Prior year adjustment	(1,361)	-
Profits not taxable in the current year	1,404	1,003
Tax charge for the period	1,672	4,762

## Notes to the financial statements

### 7. Financial assets

	2015	2014
	USD'000	USD'000
Financial assets at fair value		
Shares and other variable yield securities	462,682	276,762
Debt and other fixed income securities	156,177	356,186
Deposits with credit institutions	-	93,837
Other investments	30,450	-
	649,309	726,785

The amount expected to mature before and after one year is:

Before one year	299,219	255,346
After one year	350,090	471,439
	649,309	726,785

#### Fair value measurement

	Level 1	Level 2	Level 3	Total
	USD'000	USD'000	USD'000	USD'000
2015				
Shares and other variable yield securities	-	462,682	-	462,682
Debt and other fixed income securities	-	156,177	-	156,177
Other investments	8,372	12,374	9,704	30,450
	8,372	261,577	9,704	649,309
2014				
Shares and other variable yield securities	-	276,762	-	276,762
Debt and other fixed income securities	-	356,186	-	356,186
Deposits with credit institutions	37,665	56,172	-	93,837
	37,665	689,120	-	726,785

The levels of the fair value hierarchy are defined by the standard as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- Level 2: fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- Level 3: fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Included within Level 1 of the fair value hierarchy are Government bonds, Treasury bills and exchange-traded equities which are measured based on quoted prices. Level 2 of the hierarchy includes US Government agencies, corporate securities, UK commercial property funds and investment funds. The fair value of these assets is based on the prices obtained from investment managers and investment custodians. Level 3 contains loans and deposits.

## Notes to the financial statements

### 8. Deferred acquisition costs

	2015 USD'000	2014 USD'000
Balance at 1 January	69,961	71,843
Additions	110,719	114,148
Amortisation charge	(113,106)	(121,290)
Net exchange differences	683	(3,488)
Balance at 31 December	68,257	69,961

### 9. Insurance receivables

	2015 USD'000	2014 USD'000
Arising out of direct insurance operations	128,476	123,119
Arising out of reinsurance operations	28,183	40,732
	156,659	163,851

	2015 USD'000	2014 USD'000
Due within one year	156,416	163,496
Due after one year	243	355
	156,659	163,851

### 10. Reinsurance assets

	2015 USD'000	2014 USD'000
Reinsurers' share of claims reported and loss adjustment expenses	280,977	317,254
Reinsurers' share of claims incurred but not reported	282,545	320,953
Reinsurers' share of claims liabilities	563,522	638,207
Unearned premiums	234,237	243,929
	797,759	882,136

### 11. Cash and cash equivalents

	2015 USD'000	2014 USD'000
Cash at bank and in hand	16,413	18,162

### 12. Share capital

	2015 Authorised Number	2015 Authorised USD'000	2015 Allotted, issued and fully paid Number	2015 Allotted, issued and fully paid USD'000
Ordinary shares of £1 each	1,000	2	1	-

## Notes to the financial statements

### 13. Insurance liabilities

	2015 USD'000	2014 USD'000
Claims reported and loss adjustment expenses	303,714	345,003
Claims incurred but not reported	314,105	339,162
Gross claims liabilities	617,819	684,165
Unearned premiums	243,564	255,807
	861,383	939,972

Movements in insurance liabilities and reinsurance assets are as follows:

	2015 Gross USD'000	2015 Reinsurance USD'000	2015 Net USD'000	2014 Gross USD'000	2014 Reinsurance USD'000	2014 Net USD'000
Claims and loss adjustment expenses						
At 1 January	684,165	638,207	45,958	699,741	636,904	62,837
Claims paid	(284,271)	(266,792)	(17,479)	(225,340)	(207,489)	(17,851)
Movement arising from current years	190,732	186,605	4,127	229,424	220,677	8,747
Movement arising from prior years	2,202	-	2,202	4,326	-	4,326
Net exchange differences	24,991	5,502	19,489	(23,986)	(11,884)	(12,102)
At 31 December	617,819	563,522	54,297	684,165	638,208	45,957

	2015 Gross USD'000	2015 Reinsurance USD'000	2015 Net USD'000	2014 Gross USD'000	2014 Reinsurance USD'000	2014 Net USD'000
Unearned premiums						
At 1 January	255,807	243,929	11,878	288,551	264,018	24,533
Increase in the year	431,713	309,969	121,744	453,088	319,903	133,185
Release in the year	(441,021)	(316,265)	(124,756)	(481,437)	(338,416)	(143,021)
Net exchange differences	(2,935)	(3,396)	461	(4,395)	(1,576)	(2,819)
At 31 December	243,564	234,237	9,327	255,807	243,929	11,878

#### 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.

## Notes to the financial statements

### 13. 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.

We also review triangulations of the paid / outstanding claim ratios 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 at a whole account level. 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 claims for each underwriting year has changed at successive year ends. The bottom half of the table reconciles the gross and net 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 company 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	2013	2012	2011	2010 and prior
Gross claims, syndicate	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1 year	113,186	116,577	142,190	148,095	130,713	774,563
2 years	-	228,185	273,569	225,493	233,377	949,189
3 years	-	-	285,563	233,040	250,235	982,723
4 years	-	-	-	231,688	245,321	993,150
5 years	-	-	-	-	244,100	986,163
6 years	-	-	-	-	-	978,075

## Notes to the financial statements

### 13. Insurance liabilities (continued)

	2015 USD'000	2014 USD'000	2013 USD'000	2012 USD'000	2011 USD'000	2010 and prior USD'000
Net claims, syndicate						
1 year	90,038	95,987	131,113	138,311	122,109	695,280
2 years	-	184,452	230,931	219,805	210,463	825,349
3 years	-	-	242,144	225,414	214,390	850,475
4 years	-	-	-	219,753	203,058	854,420
5 years	-	-	-	-	200,229	843,276
6 years	-	-	-	-	-	832,648
					Gross All years USD'000	Net All years USD'000
Total claims					2,080,797	1,769,264
Less paid claims					1,421,693	1,185,224
Claims liabilities, syndicate					659,104	584,040
Less unaligned share					(41,285)	(529,743)
Claims liabilities, company					617,819	54,297

On a whole account basis, the claims experience in 2015 has been better than expected based on the prior year reserves.

### 14. Other payables

	2015 USD'000	2014 USD'000
Creditors arising out of direct insurance operations	1,643	5,747
Creditors arising out of reinsurance operations	787,542	850,430
Other creditors	5,851	48,599
	795,036	904,776
	2015 USD'000	2014 USD'000
Due within one year	397,036	413,938
Due after one year	398,000	490,838
	795,036	904,776

### 15. Deferred taxation

	2015 USD'000	2014 USD'000
Provision at 1 January	5,506	8,279
Underwriting results taxable on closure of the 2015, 2014 and 2013 YOA	(2,117)	(2,931)
Net exchange differences	(235)	158
At 31 December	3,154	5,506

## Notes to the financial statements

### 15. Deferred taxation (continued)

The deferred taxation provision relates to underwriting results taxable on the 2015, 2014 and 2013 YOA.

The UK corporation tax rate reduced from 21% to 20, effective 1 April 2015. This resulted in a weighted average rate of 20.2% for the year ended 31 December 2015 (2014: 21.5%). In 2015, further planned reductions were announced, from 20% to 19% from April 2017 and to 18% from April 2020. In accordance with accounting standards the effect of these rate reductions on deferred tax balances have been reflected in these accounts as the relevant legislation in relation to the reduction in the UK corporation tax rate has been substantively enacted at the balance sheet date.

### 16. Related parties

The results of the company are consolidated in the financial statements of AIHL. The registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. No other group financial statements include the results of the company.

The company has taken advantage of the exemption for wholly owned subsidiaries available in FRS 102 and has not disclosed related party transactions between itself and other group companies.

### 17. Syndicate assets

Investments and cash of USD665.7m (2014: USD744.9m) are held within syndicate trust funds. There is a charge over these assets in order to satisfy Lloyd's obligations. Assets held within syndicate trust funds are not readily available to the company.