Arch Europe Insurance Services Ltd
(Registered number: 06645619)

Annual report and financial statements
for the year ended 31 December 2010

Registered Number 6645619

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Directors' Report

The dırectors present theır annual report of Arch Europe Insurance Servıces Ltd ('the Company"), together wıth the audıted financıal statements for the year ended 31 December 2010 Thıs ıs the first year that the Company has adopted Internatıonal Fınancıal Reportıng Standards (IFRS) as the basıs of preparıng the financıal statements

Ownership

The Company ıs an ultımate wholly owned subsıdıary of Arch Capıtal Group Ltd ("ACGL"), a Bermuda-based company wıth $4 91 bıllıon of capıtal at 31 December 2010 Through operatıons ın Bermuda, the Unıted States, Europe and Canada, Arch Capıtal Group Ltd provıdes ınsurance and reınsurance on a worldwıde basıs Arch Capıtal Group Ltd ıs lısted on the NASDAQ U S stock exchange

The Company ıs dırectly owned by Arch Insurance Company (Europe) Lımıted, an FSA regulated ınsurance company that underwrıtes Property, Energy, Marıne and Casualty ınsurance busıness wıth a focus on Specıalty lınes of ınsurance

Principal Activities and Business Review

The Company was formed to provide servıces ın the form of staff and facılıtıes to Arch Insurance Company (Europe) Lımıted ("AICE") and Arch Underwrıtıng at Lloyd's Ltd ("AUAL") The Company ıncurs all sıgnıficant staff and facılıty costs and pays all supplıers on behalf of AICE and AUAL and has a polıcy for re-chargıng these costs, ıncludıng a margın, to the aforementıoned companıes as a secondment and servıce charge whıch ıs recognısed as turnover

Results and Dividends

The Company's result for the year ıs a profit of £1 0m (2009 £1 4m) generated through a secondment and servıce charge receıved from AICE and AUAL No dıvıdends were paıd or proposed ın the year

The Company's key performance ındıcators for the year were as follows

	2010	2009
Turnover	£23 4m	£22 0m
Operatıng Profit	£1 0m	£1 0m
Net Profit	£1 0m	£1 4m

Future Outlook

The Company expects a sımılar level of turnover ın 2011 As there are no expected changes to the servıce and secondment margın charged, the level of operatıng profit to turnover ıs expected to remaın consıstent wıth the current year

Principal Risks and Uncertaintıes

The Company's operatıons expose ıt to a varıety of rısks that ınclude operational rısk, credıt rısk, lıquıdıty rısk, ınterest rate cash flow rısk and capıtal rısk

The Board of Dırectors has ultımate responsıbılıty for the Company's rısk management Thıs ıncludes approval of the busıness plan, the maıntenance of financıal resources and for ensurıng the adequacy of

Directors' report *(continued)*

Principal Risks and Uncertainties *(continued)*

the systems and internal controls, including risk governance arrangements The Board gains assurance from a number of sources that include Internal Audit, Legal & Compliance and internal controls testing

The Company has a defined strategy and system of governance to define its risk policies and to manage these The Board of Directors holds ultimate responsibility for the risk management strategy, the business plan and the maintenance and management of financial resources The authority to meet these goals is delegated to the executive management of the Company in the form of the Management Committee The Board of Directors is responsible for ensuring the adequacy of the systems and controls including

- risk governance arrangements and an appropriate business plan
- overseeing the development of appropriate systems for the management of potential risks
- establishing adequate internal controls
- ensuring that the firm maintains adequate financial resources

Details of the risks are described in note 3 of these accounts

Corporate and Social Responsibility

The Board recognises the importance of managing the impact of the Company's activities and takes care to maintain ethical standards and integrity in the conduct of our business

The global Arch group of companies maintains a Code of Business Conduct, which describes our ethical principles and includes policies designed to assist in preventing violations of the Code and to allow the Company to respond appropriately to any actual or potential violations To help set the standards of behaviour expected from all staff, the Company provides a training course on the Code intended to help guide employees in the way that they conduct business

The Company is committed to providing equal opportunities to potential and actual employees in all aspects of employment Our employment policies are non-discriminatory on any grounds relating to selection, training, career development or any other employment matters

Our success depends upon on having highly capable people who fit well with the Company's culture of performance, accountability, teamwork and ethical conduct Staff are encouraged to continue professional education and each employee is encouraged to develop a personal development plan with their managers

Charitable Donations

During the year the Company made charitable donations of £4,109 No donations were made for political purposes

Directors

The names of the directors of the Company during the year and up to the date of signing the financial statements are listed on the Company Information page of these financial statements

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' 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 the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of Disclosure of Information to Auditors

Each of the persons who is a director at the date of this financial statement confirms that

- So far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2010 of which the auditors are unaware,
- The director has taken all steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

On behalf of the Board

P Robotham
Director

6th Floor Plantation Place South
60 Great Tower Street
London
EC3R 5AZ
United Kingdom
17 March 2011

Independent Auditors' Report To The Members Of Arch Europe Insurance Services Ltd

We have audited the financial statements of Arch Europe Insurance Services Ltd for the year ended 31 December 2010, which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, 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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

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 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditors' Report To The Members Of Arch Europe Insurance Services Ltd (continued)

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

N J D Terry

Nigel Terry (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2011

Statement of comprehensive income
For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue	*5*	23,407	21,980
Administrative expenses		(22,419)	(20,964)
Operating profit		988	1,016
Finance income – interest received		1	1
Finance expenses – bank charges		(11)	(156)
Profit before income tax		978	861
Income tax (charge) / benefit	*11*	12	501
Profit and total comprehensive income for the year		990	1,362

All amounts reflect continuing operations

The notes on page 10 to 22 form part of these financial statements

Statement of financial position

As at	Notes	31 December 2010 £000	31 December 2009 £000	1 January 2009 £
Assets				
Non-current assets				
Property, plant and equipment	*14*	1,040	1,146	-
Intangible assets	*15*	854	1,048	-
Deferred tax	*12*	823	425	-
Non-current assets		2,717	2,619	-
Current assets				
Trade and other receivables	*13*	4,373	3,681	-
Cash and cash equivalents		5,999	5,275	100
Prepayments		727	702	-
Current tax asset		10	75	-
Current assets		11,109	9,733	100
Total Assets		13,826	12,352	100
Equity and liabilities				
Called up share capital	*17*	5,000	5,000	100
Retained earnings		3,889	2,091	-
Total equity (all attributable to owners of the Company)		8,889	7,091	100
Liabilities				
Non-current liabilities				
Trade and other payables – due after more than one year	*16*	518	704	-
Current liabilities				
Trade and other payables – due within one year	*16*	4,419	4,557	-
Total liabilities		4,937	5,261	-
Total equity and liabilities		13,826	12,352	100

These financial statements and notes were approved by the Board of Directors and were signed on its behalf by

Paul Robotham

P Robotham
Director
17 March 2011

Statement of changes in equity

	Called up share capital £000	Retained earnings £000	Total £000
Balance at 01 January 2009	-	-	-
Profit and total comprehensive income for the year	-	1,362	1,362
Proceeds from shares issued	5,000	-	5,000
Share based payments	-	729	729
Balance at 31 December 2009	**5,000**	**2,091**	**7,091**
Profit and total comprehensive income for the year	-	991	991
Share based payments	-	807	807
Balance at 31 December 2010	**5,000**	**3,889**	**8,889**

The Balance at 01 January 2009 included £100 of called up share capital

Statement of cash flows
For the year ended 31 December 2010

	2010 £000	2009 £000
Profit before tax	978	861
Adjustments to reconcile profit before tax to net cash provided by operating income		
Finance income	(1)	(1)
Income taxes paid	(568)	501
Other reserves	807	729
Changes in operational assets	(169)	(7,076)
Changes in operational liabilities	(323)	5,261
Net cash flows from operating activities	724	275
Net cash flows from financing activities	-	5,000
Net increase in cash and cash equivalents	724	5,275
Cash and cash equivalents at 1 January	5,275	-
Net increase in cash and cash equivalents	724	5,275
Cash and cash equivalents at 31 December	5,999	5,275

Notes to the Financial Statements

1 GENERAL INFORMATION

Arch Europe Insurance Services Ltd is a company domiciled in England and Wales The address of the registered office is provided on the company information page and the nature of the company's operating and principal activities are included within the Directors' Report

2 ACCOUNTING POLICIES

(a) ***Basis of preparation***

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), IFRC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The financial statements have been prepared under the historical cost convention and are compiled on a going concern basis

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses

Estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected

The financial statements are prepared and presented in UK sterling and are rounded to the nearest thousand unless otherwise stated

(b) ***Management fees***

Management fees are calculated on a cost incurred plus mark up, which is defined in the service and secondment agreement, and are credited over the period in which they are considered to be earned

(c) ***Functional currency***

The functional currency of the Company has been determined to be UK sterling

(d) ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the statement of comprehensive income

(e) ***Cash and cash equivalents***

The Company has classified cash deposits and short-term highly liquid investments as cash and cash equivalents These assets are readily convertible into known amounts of cash

(f) ***Trade and other receivables***

Trade receivables are amounts due for services performed in the ordinary course of business If collection is expected in one year or less, they are classified as current assets If not, they are presented as non-current assets

(g) ***Trade and other payables***

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers These are classified as current liabilities if payment is due within one year or less If not, they are presented as non-current liabilities

Notes to the Financial Statements (continued)

(h) Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property and plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses Cost includes expenditures that are directly attributable to the acquisition of the asset

Gain and losses on disposal of an item of property and plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss

(ii) Subsequent costs

The cost of replacing part of an item of property and plant and equipment is recognised in the carrying amount of the item if it probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably The costs of the day-to-day servicing are recognised in profit or loss as incurred

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset Leased assets are depreciated over the shorter of the lease term and their useful lives

The estimate useful lives for the current and comparative periods are as follows

• Leasehold improvements	Over the term of the lease (currently 10 years)
• Computer software	6 years
• Furniture and Fixtures	5 years
• Other computer Hardware	3 years
• Motor vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate

(j) Intangible assets

Intangible assets comprise of computer software which is measured at cost or deemed cost less accumulated depreciation and impairment losses Amortisation is recognised in profit or loss on a straight line basis over the estimate useful life of the computer software, which is 6 years

Notes to the Financial Statements (continued)

(k) ***Pension costs***

All employees are eligible to become members of a defined contribution Grouped Personal Pension Plan The assets of the scheme are held separately from those of the Company in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year

(l) ***Leases***

Rentals payable under operating leases are charged to the profit and loss account in equal annual instalments over the period of the lease

(m) ***Share based payments***

Share based payment awards are granted by Arch Capital Group Limited and recharges to the Company are expensed The grant date fair value of the Long-Term Incentive and Share Award Plan, is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date For share-based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes

In all schemes offered, the employees are granted or purchase the shares of Arch Capital Group Limited and the Company has no obligation to settle the share-based payment Therefore all schemes are accounted for as equity-settled share based payment transactions

(n) ***Share capital***

Ordinary shares are classified as equity Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects

(o) ***Provisions***

Provisions are provided for where there is a present obligation as a result of a past event, that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle that obligation

Notes to the Financial Statements (continued)

3 MANAGEMENT OF RISKS

As described in the Directors' Report, the Board of Directors has ultimate responsibility for the Company's risk management The following paragraphs describe the principal risks and uncertainties facing the Company and any mitigation taken to limit those risks

Operational Risk

Most operational risks are addressed through the Company's business disaster scenario planning, including remediation measures The Company has an outsourcing policy and separately monitors its outsourcing risks

The Company outsources many of its non-core services, including I T support, operating systems maintenance and legal services

Outsourcing risk is managed through service agreements which define service standards These may be supported by periodic audits and the Company takes steps to satisfy itself as to the outsource provider's continuity and competence to provide the service being outsourced SAS 70 reports are obtained when applicable.

The Company's largest outsource service provider is Insure Services Limited (Xchanging) and total billed services charges from this supplier during 2010 were £2 3 million

Credit Risk

The Company's exposure to credit risk is limited to the risk that AICE or AUAL will be unable to pay amounts when due This risk is mitigated by internal financial and capital commitments to those companies from companies forming part of the Arch Capital Group Ltd (ACGL) group of companies

Liquidity Risk

Liquidity risk arises where cash may not be available to pay obligations when due Regular cash flow monitoring ensures that sufficient deposits are available to meet payments

Interest Rate Cash Flow Risk

The Company has interest bearing assets Interest bearing assets include cash balances on short term deposit which earn interest at a floating rate

Capital Risk

The Company maintains a capital level required to meet its obligations to continue on a going concern basis There is minimal pressure on the capital of the Company due to the nature of the operations of the Company

4 FIRST TIME ADOPTION

These are the Company's first financial statements prepared in accordance with IFRS as adopted by the EU The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2010, the comparative information presented in these financial statements for the year ended 31 December 2009 and in the preparation of an opening IFRS balance sheet at 1 January 2009 (the date of transition)

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods The group's first-time adoption did not have an impact on these items

Notes to the Financial Statements (continued)

5 REVENUE

	2010 £000	2009 £000
Management fees	23,407	21,980

Turnover is all derived within the United Kingdom

6 OPERATING PROFIT

	2010 £000	2009 £000
Operating profit is arrived at after charging		
Depreciation	249	263
Amortisation	287	388
Operating lease rentals		
- Land and buildings	829	863

7 AUDITORS' REMUNERATION

During the year, the Company obtained the following services from the Company's auditor at costs detailed below

	2010 £000	2009 £000
Auditors' remuneration for audit of the financial statements	26	19
Other Services	1	-
	27	19

Notes to the Financial Statements (continued)

8 DIRECTORS AND EMPLOYEES

The aggregate emoluments paid to directors was £3,365,000 (2009 £3,480,000) All staff costs are recharged to either the parent company or fellow subsidiary companies

There were no transactions between Arch Europe Insurance Services Ltd and its Directors and Officers during the year ended 31 December 2010 which require disclosure

	2010	2009
	£000	£000
Highest paid director	637	605

The average number of persons employed by the Company (including executive directors) during the year, analysed by category, was as follows

	2010	2009
	Number	Number
Underwriting	43	39
Administration and Finance	37	33
Claims	10	11
	90	83

Staff Costs

	2010	2009
	£000	£000
The aggregate payroll costs of these persons were as follows		
Salaries	7,298	6,623
Social security costs	1,444	1,093
Other pension costs	720	691
	9,462	8,407

9 PENSIONS

The Company contributes to a defined contribution Grouped Personal Pension Plan The assets of the scheme are held separately from those of the Company in an independently administered fund The unpaid contributions outstanding at the end of the period were £65,038 (2009 £56,408)

10 SHARE BASED PAYMENTS

The Company has a Share Award Plan intended to provide for competitive compensation opportunities, to encourage long-term service, to recognize individual contributions and reward achievement of performance goals The Plan is intended to promote the creation of long-term value for shareholders by aligning the interests of valued staff with those of shareholders The Plan provides for eligible employees and directors to be granted stock options, stock appreciation rights, restricted shares, restricted share units payable in common shares or cash, share awards in lieu of cash awards, dividend equivalents and other share-based awards

In 2007, the Company introduced an Employee Share Purchase Plan (the "ESPP") The purpose of the ESPP is to give employees of Arch Capital Group Ltd ('ACGL') and its subsidiaries an opportunity to purchase common shares through payroll deductions, thereby encouraging employees to share in the economic growth and success of ACGL and its subsidiaries The ESPP provides for consecutive six-month offering periods under which participating employees can elect to have up to 20% of their total compensation withheld and applied to the purchase of common shares of the Company at the end of the period The purchase price will be 85% of the fair market value of the common shares at the beginning of the offering period The maximum number of shares that may be purchased by an employee in any offering period is 3,000 shares In addition, a participant's right to purchase stock under the ESPP cannot accumulate at a rate in excess of $25,000 per calendar year

For purposes of determining estimated market value, the ultimate parent company has computed the estimated market values of share-based compensation related to stock options using the Black-Scholes option valuation model and has applied the assumptions set forth in the table below

	2010	2009
Dividend yield	0 0%	0 0%
Expected volatility	25 5%	26 2%
Risk free interest rate	2 7%	2 6%
Expected option life	5 9 Years	5 8 Years

The number and weighted average exercise prices of share awards are as follows

	Weighted average exercise price in $	Number of options	Weighted average exercise price in $	Number of options
	2010	2010	2009	2009
Outstanding at 1 January	53 60	99,704	52 45	91,148
Forfeited during the period	-	-	-	-
Exercised during the period	61 17	(2,822)	37 72	(3,400)
Expired during the period	-	-	-	-
Granted during the period	75 03	8,877	57 88	11,956
Outstanding at 31 December	55 20	105,759	53 60	99,704
Exercisable at 31 December	51 95	82,921	49 63	71,674

Notes to the Financial Statements (continued)

10 SHARE BASED PAYMENTS (continued)

The share awards generally vest over a 3 year period with one third vesting on the first, second and third anniversaries of the grant date The awards have a 10 year contractual life.

The share awards outstanding at 31 December 2010 have an exercise price in the range of £33 42 to £69 30 (2009 £33 42 to £69 30) and a weighted average contractual life of 8 51 years (2009 8 67 years)

The weighted average share price at the date of exercise for share awards exercised in 2010 was £77 76 (2009 £70 61)

The charge to the Statement of comprehensive income in respect of share based payments and the corresponding credit to equity was £807k (2009 £729k)

11 INCOME TAX EXPENSE / (BENEFIT)

The Company is subject to tax laws enacted in the United Kingdom

The tax charged in the income statement comprises the following	2010	2009
	£000	£000
Current tax expense / (benefit)		
Current period	310	(75)
Adjustments in respect of prior years	75	-
	385	(75)
Deferred tax (note 12)	(397)	(425)
	(12)	(501)

Corporation tax is calculated at 28 per cent (2009 28 per cent) of the estimated taxable profit for the year

Notes to the Financial Statements (continued)

11 INCOME TAX EXPENSE / (BENEFIT) (continued)

	2010	2010	2009	2009
	£000	%	£000	%
Reconciliation of effective tax rate				
Profit before tax on continuing operations	978	-	861	-
Tax at the UK corporation tax rate of 28% (2009 28%)	274	28	241	28
Tax effect of expenses that are not deductible in determining taxable profit	101	10 3	86	9 9
Tax effect of timing differences	(65)	(6 6)	(401)	(46 5)
Adjustments for prior periods	75	7 7		
Other timing differences	(397)	(40 6)	(425)	(49 4)
Tax benefit and effective tax rate for the year	(12)	(1 2)	(501)	(58 2)

12 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	£000	£000	£000	£000	£000	£000
Property and equipment	-	93	(30)	-	(30)	93
Share-based payment transactions	606	198	-	-	606	198
Other items	160	134	87	-	247	134
Net tax assets / (liabilities)	766	425	57	-	823	425

Notes to the Financial Statements (continued)

13 TRADE AND OTHER RECEIVABLES

	2010 £000	2009 £000
Due within one year		
Amounts owed from related parties	3,904	3,511
Other	469	170
	4,373	3,681

14 PROPERTY AND EQUIPMENT

	Leasehold improvements £000	Fixtures, fittings & equipment £000	Total £000
Book cost			
At 1 January 2010	1,017	392	1,409
Additions	61	82	143
Disposals	-	-	-
At 31 December 2010	1,078	474	1,552
Accumulated depreciation			
At 1 January 2010	121	142	263
Charge for the year	127	122	249
Disposals	-	-	-
At 31 December 2010	248	264	512
Net book value			
31 December 2010	830	210	1,040
31 December 2009	896	250	1,146

In 2009 the Company acquired its tangible assets from Arch Insurance Company (Europe) Limited at net book value The assets are capitalised and depreciated over their estimated useful life based on original cost

Notes to the Financial Statements (continued)

15 OTHER INTANGIBLE ASSETS

	Computer software under service contract	Total
	£000	£000
Book cost		
At 1 January 2010	1,436	1,436
Additions	94	94
Disposals	-	-
At 31 December 2010	1,530	1,530
Amortisation		
At 1 January 2010	388	388
Charge for the year	288	288
Disposals	-	-
At 31 December 2010	676	676
Net book value		
31 December 2010	854	854
31 December 2009	1,048	1,048

In 2009 the Company acquired its intangible assets from Arch Insurance Company (Europe) Limited at net book value The assets are capitalised and amortised over their estimated useful life based on original cost

16 TRADE AND OTHER PAYABLES

	2010	2009
	£000	£000
Due within one year		
Other creditors	369	79
Amounts owed to related parties	12	91
Accrued expenses and deferred income	4,038	4,387
	4,419	4,557
Due after more than one year		
Accrued expenses and deferred income	518	704

Notes to the Financial Statements (continued)

17 CALLED UP SHARE CAPITAL

	2010	2009	1 January 2009
	£000	£000	£
Authorised			
100,000 Ordinary shares of £100 each	10,000	10,000	100
Issued and fully paid			
50,000 Ordinary shares of £100 each	5,000	5,000	100

18 OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2010 £000	2009 £000
Within one year	916	916
In the second to fifth years inclusive	3,663	3,663
After five years	764	1,680
	5,343	6,259

Notes to the Financial Statements (continued)

19 ULTIMATE PARENT COMPANY

The immediate parent of the Company is Arch Insurance Company (Europe) Ltd, a Company incorporated in the United Kingdom The ultimate parent company is Arch Capital Group Ltd, a company incorporated in Bermuda

The smallest and largest group in which the results of the Company are consolidated is that headed by Arch Capital Group Ltd The consolidated financial statements of Arch Capital Group Ltd available to the public and may be obtained from Arch Capital Group Ltd, Wessex House, 45 Reid Street, Hamilton HM12, Bermuda

20 RELATED PARTY TRANSACTIONS

Arch Europe Insurance Services Ltd (the "Company") was formed to provide services in the form of staff and facilities to Arch Insurance Company (Europe) Limited ("AICE") and Arch Underwriting at Lloyd's Ltd ("AUAL") The Company incurs staff and facility costs and recharges them to AICE and AUAL. The Company also has related party transactions with Arch Insurance Group Inc, a US service company, Arch Investment Management Ltd, a Bermuda based company providing investment management services, and Arch International Services, a US service company

The amounts sourced from related parties are detailed below

	2010		2009	
	Income and (expenses) incurred	**(Payable) / Receivable**	**Income and (expenses) incurred**	**(Payable) / Receivable**
	£000	**£000**	**£000**	**£000**
Arch Insurance Company (Europe) Limited	14,834	3,470	18,319	3,372
Arch Underwriting at Lloyd's Ltd	8,549	(12)	3,783	-
Arch Insurance Group Inc	-	6	(55)	(57)
Arch Capital Services	(580)	1	(580)	-
Arch International Services	(207)	-	(138)	(19)
Arch Investment Management Ltd	-	-	-	(16)
Arch Syndicate Investment Ltd	-	427	(138)	138

Company Information

Directors

W Beveridge
K Christensen
E Fullerton-Rome
D Hipkin
P Robotham
B Singh
A Watson
J Weatherstone

K Christensen (Company Secretary)

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Registered Number

6645619

Independent Auditors

PricewaterhouseCoopers LLP,
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Principal Bankers

Barclays Bank Plc, London

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