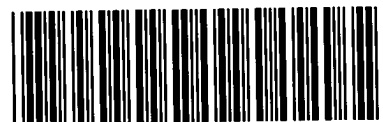


Arch Europe Insurance Services Ltd
(Registered number: 06645619)

**Annual Report and Financial Statements
For the year ended 31 December 2014**

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Annual Report and Financial Statements for the year ended 31 December 2014

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Strategic Report as at 31 December 2014

The directors present their strategic report of Arch Europe Insurance Services Ltd (“the Company”) for the year ended 31 December 2014.

Principal Activities and Business Review

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 all significant staff and facility costs and pays all suppliers on behalf of AICE and AUAL and has a policy for re-charging these costs, including a margin, to the aforementioned companies as a secondment and service charge which is recognised as turnover.

Results and Dividends

The Company’s result for the year is a profit of £0.5m (2013: £0.5m) generated through a secondment and service charge received from AICE and AUAL.

The Company’s key performance indicators for the year were as follows:

	2014	2013
Revenue	£29.8m	£29.2m
Operating Profit	£1.0m	£1.4m
Profit and total comprehensive income for the year	£0.5m	£0.5m

The Company’s profit and total comprehensive income for the year is in line with 2013 despite a £0.5m decrease in operating profit in 2014. This is largely due to a higher income tax charge in the prior year (2014: £0.5m 2013: £0.9m) (See note 9).

Principal Risks and Uncertainties

The Company’s operations expose it to a variety of risks that include operational risk, credit risk, liquidity risk, interest rate cash flow risk and capital risk.

The Board of Directors has ultimate responsibility for the Company’s risk management. This includes approval of the business plan, the maintenance of financial resources and for ensuring the adequacy of 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; and
- ensuring that the firm maintains adequate financial resources.

Strategic Report as at 31 December 2014 (continued)

Management of Risks

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. Controls 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 2014 were £1.6 million (2013: £2.1 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

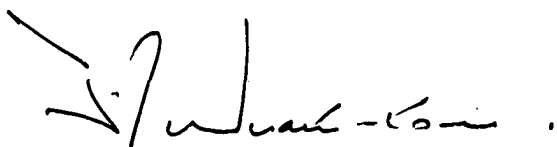
The Company has interest bearing assets. Interest bearing assets include cash balances on short term deposit which earn interest at a floating rate.

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.

Future Outlook

The Company expects a similar level of turnover in 2015. As there are no expected changes to the service and secondment margin charged, the level of operating profit to turnover is expected to remain consistent with the current year.



J. Weatherstone
Director
24 March 2015

Directors' Report as at 31 December 2014

The Directors present their annual report of Arch Europe Insurance Services Ltd ("the Company") and the audited financial statements for the year ended 31 December 2014.

General Information

Arch Europe Insurance Services Ltd is a UK incorporated company domiciled in England and Wales, the address of the registered office is provided on the Directors and Administration page. The nature of the Company's principal activities, outlook for the future and details of the Company's financial risk management strategy are included within the Strategic Report (pages 1-2).

Ownership

The Company's ultimate parent company is ACGL, a Bermuda-based company with \$7.0 billion (2013: \$6.5 billion) of capital at 31 December 2014. Through operations in Bermuda, the United States, Europe and Canada, ACGL provides insurance and reinsurance on a worldwide basis. ACGL is listed on the NASDAQ U.S. stock exchange.

The Company is directly owned by Arch Insurance Company (Europe) Limited ("AICE"), a PRA regulated insurance company that underwrites Property, Energy, Marine, Personal Accident, Executive Assurance, Professional Liability and Casualty insurance business with a focus on Specialty lines of insurance.

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.

Directors

The directors of the Company during the year and up to the date of signing the financial statements are:

D. Hipkin	
J. Kittinger	Appointed 22 September 2014
B. Singh	
A. Watson	
J. Weatherstone	

Directors' Report as at 31 December 2014 (continued)

Financial Risk Management

The Company is exposed to a wide variety of risks in the normal course of business. The Company has comprehensive arrangements in place for the management of risks that seek to mitigate the adverse effects risk can have on the Company's performance and position. The principal risks and uncertainties and the mechanism by which these risk and uncertainties are managed are addressed in the strategic report.

Principal Activities

Please refer to Strategic Report on page 1.

Business Review

Please refer to Strategic Report on pages 1.

Principal Risk and Uncertainties

Please refer to Strategic Report on pages 1.

Future Developments

Please refer to Strategic Report on page 2.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the 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. 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 (IFRSs) 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

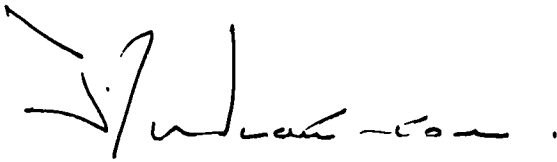
Directors' Report as at 31 December 2014 *(continued)*

Statement of Disclosure of Information to Independent Auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken 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.

Approved by the Board and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'J. Weatherstone', with a large, stylized initial 'J'.

J. Weatherstone
Director
24 March 2015

Independent auditors' report to the members of Arch Europe Insurance Services Ltd

Report on the financial statements

Our opinion

In our opinion, Arch Europe Insurance Services Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
 - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

Arch Europe Insurance Services Ltd's financial statements comprise:

- the Statement of Financial Position as at 31 December 2014;
- the Statement of Comprehensive Income for the year ended 31 December 2014;
- the Statement of Cash Flows for the year ended 31 December 2014;
- the Statement of Changes in Equity as at 31 December 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report as at 31 December 2014 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements for the year ended 31 December 2014 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Damian Cooper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 March 2015

Statement of Comprehensive Income
For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Revenue	3	29,750	29,210
Administrative expenses		<u>(28,742)</u>	<u>(27,844)</u>
Operating profit	4	1,008	1,366
Finance expenses – bank charges		<u>(19)</u>	<u>(5)</u>
Profit before income tax		989	1,360
Income tax expense	9	<u>(468)</u>	<u>(906)</u>
Profit and total comprehensive income for the year		<u>521</u>	<u>455</u>

All amounts reflect continuing operations.

The notes on pages 11 to 21 form part of these financial statements.

Statement of Financial Position

As at 31 December 2014

	Notes	2014 £000	2013 £000
Assets			
Non-current assets			
Property, plant and equipment	12	708	910
Intangible assets	12	1,337	1,430
Deferred tax	10	1,599	1,492
Non-current assets		3,644	3,832
Current assets			
Trade and other receivables	11	13,978	10,042
Cash and cash equivalents		269	1,610
Prepayments		676	594
Current tax asset	9	-	-
Current assets		14,923	12,246
Total Assets		18,567	16,078
Equity and liabilities			
Called up share capital	15	5,000	5,000
Retained earnings		9,308	6,482
Total equity		14,308	11,482
Liabilities			
Non-current liabilities			
Trade and other payables – due after more than one year	14	-	744
Current liabilities			
Trade and other payables – due within one year	14	3,761	3,699
Current tax liability	9	498	153
Total liabilities		4,259	4,597
Total equity and liabilities		18,567	16,078

The notes on pages 11 to 21 form part of these financial statements.

These financial statements and notes on pages 7 to 21 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf by:



J. Kittinger
Finance Director
24 March 2015

Statement of Changes in Equity
As at 31 December 2014

	Called up share capital	Retained Earnings	Total Equity
	£000	£000	£000
Balance at 1 January 2013	5,000	3,862	8,862
Profit and total comprehensive income for the year	-	455	455
Tax credit relating to share options	-	413	413
Share based payments	-	1,752	1,752
Balance at 31 December 2013	5,000	6,482	11,482
Profit and total comprehensive income for the year	-	521	521
Tax credit relating to share options	-	230	230
Share based payments	-	2,075	2,075
Balance at 31 December 2014	5,000	9,308	14,308

The notes on pages 11 to 21 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2014

	2014	2013
	£000	£000
Profit before tax	989	1,360
Adjustments to reconcile profit before tax to net cash provided by operating income:		
Income taxes paid	-	(100)
Change in other reserves	2,075	2,165
Changes in operational assets	(3,348)	(4,702)
Changes in operational liabilities	(683)	(1,161)
Net cash flows used in operating activities	(967)	(2,438)
Purchase of property, plant and equipment	(18)	(73)
Purchase of intangible assets	(356)	(687)
Net cash flows used in investing activities	(374)	(760)
Net reduction in cash and cash equivalents	(1,341)	(3,198)
Cash and cash equivalents at 1 January	1,610	4,808
Net reduction in cash and cash equivalents	(1,341)	(3,198)
Cash and cash equivalents at 31 December	269	1,610

The notes on pages 11 to 21 form part of these financial statements.

Notes to the Financial Statements

General Information

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

1 Accounting Policies

All accounting policies detailed below have been applied consistently.

(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), International Financial Reporting Interpretations Committee (IFRIC) 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 basis, 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 obliged 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)

1 Accounting Policies (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 it 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, 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, 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, plant and equipment is recognised in the carrying amount of the item if it is 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 under service contract	6 years
• Furniture and Fixtures	5 years
• Other computer Hardware	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.

(k) *Pension costs*

All employees are eligible to become members of a defined contribution Group Personal Pension Plan. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Notes to the Financial Statements (continued)

1 Accounting Policies (continued)

(k) Pension costs (continued)

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 ACGL 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 ACGL 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.

(p) Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(q) New standards and interpretations not yet adopted

The following is a list of standards that are in issue but are not effective in 2014, but have been endorsed for use in the EU, together with the effective date of application:

- IAS 19: Employee benefits (effective 1 July 2014)
- Annual improvements 2012 and 2013 (effective 1 July 2014)

In addition, the following is a list of standards that are in issue but are not effective in 2014, and have not yet been endorsed for use in the EU, together with the effective date of application to the group:

- Amendment to IAS 16: Property, plant and equipment (effective 1 January 2016)
- Amendment to IAS 38: Intangible assets (effective 1 January 2016)
- Annual improvements 2014 (effective 1 July 2016)

The implications of these standards and interpretations are under review.

Notes to the Financial Statements (continued)

2 Revenue

	2014 £000	2013 £000
Management fees	29,750	29,210

Turnover is all derived within the United Kingdom.

3 Operating Profit

	2014 £000	2013 £000
Operating profit is arrived at after charging:		
Depreciation	220	275
Amortisation	449	454
Operating lease rentals:		
- Land and buildings	867	845

4 Auditors' Remuneration

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

	2014 £000	2013 £000
Fees payable to the Company's auditors and their Associates for the audit of the Company's annual financial statements	39	41
Fees payable to the Company's auditors and their associates for other services:		
- Tax advisory services	25	79
- Other non-audit services	-	24
	<u>64</u>	<u>144</u>

Notes to the Financial Statements (continued)

5 Directors and Employees Costs

(a) Directors' remuneration

All staff costs are recharged to either the parent company or fellow subsidiary companies. There were no transactions between the Company and its Directors and Officers during the year ended 31 December 2014 which require disclosure.

	2014 £000	2013 £000
Directors' emoluments		
Aggregate emoluments	1,577	2,317
Amounts receivable under long-term incentive schemes	-	100
Company pension contributions to money purchase schemes	91	150
Compensation for loss of office	-	158
 Highest paid director (included above)		
Aggregate of emoluments and awards under long-term incentive schemes, including £5k in pension contributions (2013: £38k)	487	579
 Number of Directors who received shares in ACGL	6	4
Number of Directors participating in money purchase scheme	6	4
Number of Directors who exercised share options	4	3

The highest paid director received share allocations during the year under a long-term incentive scheme, with no shares being exercised during the year (2013: nil).

(b) Staff Costs

The monthly average number of persons employed by the Company (including Executive Directors) during the year, analysed by category, was as follows:

	2014 Number	2013 Number
Underwriting	53	54
Administration and Finance	55	46
Claims	17	14
	<u>125</u>	<u>114</u>
	2014 £000	2013 £000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	9,624	8,887
Social security costs	2,010	1,905
Other pension costs	1,346	1,000
Share based payments	2,075	1,456
	<u>15,055</u>	<u>13,248</u>

Notes to the Financial Statements (continued)

6 Pensions

The Company contributes to a defined contribution Group 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 year were nil (2013: £118,976).

7 Share Based Payments

The Company has a Share Award Plan intended to provide for competitive compensation opportunities, to encourage long-term service, to recognise 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 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 USD \$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.

	2014	2013
Dividend yield	0.0%	0.0%
Expected volatility	22.81%	23.6%
Risk free interest rate	1.87%	1.0%
Expected option life	6.00 Years	6.00 Years

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

	Weighted average exercise price in \$(USD)	Number of options	Weighted average exercise price in \$(USD)	Number of options
	2014	2014	2013	2013
Outstanding at 1 January	30.76	312,720	26.26	398,508
Forfeited or expired during the year	51.06	(9,521)	39.50	(20,174)
Exercised during the year	25.11	(71,665)	18.20	(97,964)
Granted during the year	56.93	41,700	53.53	32,350
Outstanding at 31 December	35.53	273,234	30.76	312,720
Exercisable at 31 December	25.13	152,917	22.32	192,507

Notes to the Financial Statements (continued)

8 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. In addition, in November 2012 the Company issued off-cycle stock options and SARS to certain employees, which will cliff vest on the fifth anniversary of the grant date. Option awards have a 10 year contractual life.

The share awards outstanding at 31 December 2014 have an exercise price in the range of \$14.75 to \$57.27 (2013: £13.00 to £53.50) and a weighted average contractual life of 5.62 years (2013: 3.84 years).

The weighted average share price at the date of exercise for share awards exercised in 2014 was \$25.11 (2013: \$22.32).

The charge to the statement of comprehensive income in respect of share based payments and the corresponding credit to equity was £2,075,000 (2013: £1,752,000).

8 Income Tax Expense

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

The tax charged in the income statement comprises the following:

	2014 £000	2013 £000
Current tax expense		
Current year	471	708
Adjustments in respect of prior years	127	400
	<u>598</u>	<u>1,108</u>

Deferred tax (note 11)

Current year movement	(117)	(215)
Adjustments in respect of prior years	(60)	(91)
Adjustments in respect of prior years in bonuses	52	-
Adjustments in respect of prior years in share options and restricted stock	-	(27)
Impact of tax rate change	(5)	131
	<u>468</u>	<u>906</u>

The standard rate of corporation tax in the UK changed from 21% to 23% with effect from 1 April 2014. Accordingly the company's profits for this accounting period are taxed at an effective rate of 21.5%.

The tax credited directly to equity comprises the following:

	2014 £000	2013 £000
Current tax credit on share option scheme	(253)	(530)
Deferred tax charge on share option scheme	23	97
Prior year adjustment	-	(87)
Impact of tax rate change	-	107
	<u>(230)</u>	<u>(413)</u>

Notes to the Financial Statements (continued)

9 Income Tax Expense / (Benefit) (continued)

	2014 £000	2014 %	2013 £000	2013 %
Reconciliation of effective tax rate				
Profit before tax on continuing operations	989		1,360	-
Tax at the UK corporation tax rate of 21.5% (2013: 23.3%)	213	21.5	316	23.3
Tax effect of expenses that are not deductible in determining taxable profit	95	9.6	178	13.0
Impact of rate change	(6)	(0.6)	130	28.9
Adjustments in respect of prior years	67	6.8	282	1.5
Prior year permanent adjustment for bonuses	51	5.2	0	0
Permanent difference on share options and restricted stock	48	4.9	0	0
Tax expense and effective tax rate for the year	468	47.4	906	66.7

9 Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Property and equipment	61	-	-	(4)	61	(4)
Restricted stock	454	351	-	-	454	351
Share options	847	805	-	-	847	805
Other items	237	340	-	-	237	340
Tax assets / (liabilities)	1,599	1,496	-	(4)	1,599	1,492
Net tax assets / (liabilities)	1,599	1,496	-	(4)	1,599	1,492

The deferred tax asset is likely to be realised beyond twelve months as the timing differences crystallise.

10 Trade and Other Receivables

	2014 £000	2013 £000
Due within one year:		
Amounts owed from related parties	12,690	9,481
Other	1,288	561
	13,978	10,042

Notes to the Financial Statements (continued)

11 Property, Plant and Equipment

	Leasehold improvements	Furniture and Fixtures	Other computer Hardware	Total
	£000	£000	£000	£000
Book cost:				
At 1 January 2014	1,532	409	351	2,292
Additions	-	1	16	17
At 31 December 2014	1,532	410	367	2,309
Accumulated depreciation:				
At 1 January 2014	733	318	331	1,382
Charge for the year	174	28	18	220
At 31 December 2014	907	346	349	1,602
Net book value:				
31 December 2014	625	64	19	708
31 December 2013	799	91	20	910

The assets are capitalised and depreciated over their estimated useful life based on original cost.

12 Intangible Assets

	Computer software under service contract	Total
	£000	£000
Book cost:		
At 1 January 2014	3,224	3,224
Additions	356	356
At 31 December 2014	3,580	3,580
Accumulated Amortisation:		
At 1 January 2014	1,794	1,794
Charge for the year	449	449
At 31 December 2014	2,243	2,243
Net book value:		
31 December 2014	1,337	1,337
31 December 2013	1,430	1,430

The assets are capitalised and amortised over their estimated useful life based on original cost.

Notes to the Financial Statements (continued)

13 Trade and Other Payables

	2014 £000	2013 £000
Due within one year:		
Other creditors	53	30
Amounts owed to related parties	-	113
Accrued expenses and deferred income	3,708	3,556
	<u>3,761</u>	<u>3,699</u>
Due after more than one year:		
Accrued expenses and deferred income	-	744

14 Called Up Share Capital

	2014 £000	2013 £000
Authorised		
10,000,000 (2013: 10,000,000) Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid		
5,000,000 (2013: 5,000,000) Ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>

15 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:

	2014 £000	2013 £000
Within one year	867	1,011
In the second to fifth years inclusive	842	1,853
	<u>1,709</u>	<u>2,864</u>

16 Dividends

The following table shows the dividends paid to equity shareholders:

	2014		2013	
	Pence (per ordinary share)	Pence (per ordinary share)	Pence (per ordinary share)	Dividend paid £000
Interim dividend for the year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements (continued)

17 Parent Company

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

The smallest and largest group in which the results of the Company are consolidated is that headed by ACGL. The consolidated financial statements of ACGL are available to the public and may be obtained from Arch Capital Group Ltd, Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

18 Related Party Transactions

Key management personnel and director transactions

There were no transactions between the Company and its Directors and Officers during the year ended 31 December 2014 which require disclosure other than those detailed in note 6a.

Other related party transactions

The Company was formed to provide services in the form of staff and facilities to AICE and AUAL. The Company incurs staff and facility costs and recharges them to AICE and AUAL. The Company also has related party transactions with Arch Capital Group Ltd, Arch Insurance Group Inc, a US service company, Arch Investment Management Ltd, a Bermuda based company providing investment management services, Arch International Services, a US service company, and Arch Risk Partners, a UK based mortgage insurance broker.

The amounts sourced from related parties are detailed below:

	2014		2013	
	Income and (expenses) incurred £000	(Payable) / Receivable £000	Income and (expenses) incurred £000	(Payable) / Receivable £000
Arch Insurance Company (Europe) Limited	12,386	6,191	10,206	2,093
Arch Underwriting at Lloyd's Ltd	15,928	4,550	19,004	6,092
Arch Insurance Group Inc	-	-	105	-
Arch Capital Services	(1,065)	-	(547)	-
Arch International Services	-	-	(16)	-
Arch Syndicate Investments Ltd	-	1,504	-	1,297
Arch Risk Partners	25	-	25	-
Arch Capital Group Ltd	-	447	-	(113)

Directors and Administration

Directors

E. Fullerton-Rome	Resigned 31 July 2014
D. Hipkin	
J. Kittinger	Appointed 22 September 2014
B. Singh	
A. Watson	
J. Weatherstone	

Company Secretary

TMF Corporate Secretarial Services Limited

Registered Number

06645619

Registered Office

6th Floor
Plantation Place South
60 Great Tower Street
London
EC3R 5AZ

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London, SE1 2RT

Principal Bankers

Barclays Bank Plc, London

Website

www.archinsurance.co.uk