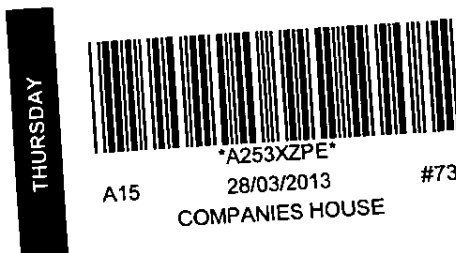


**Arch Underwriting at Lloyd's Ltd**  
(Registered number 06645822)

**Annual Report and Financial Statements**  
**For the year ended 31 December 2012**



## **Contents**

	<b>Page</b>
Directors' Report	1-5
Independent Auditors' Report to the Members of Arch Underwriting at Lloyd's Ltd	6
Statement of Comprehensive Income for the year ended 31 December 2012	7
Statement of Financial Position as at 31 December 2012	8
Statement of Changes in Equity as at 31 December 2012	9
Statement of Cash Flows for the year ended 31 December 2012	9
Notes to the Financial Statements	10-17
Directors and Administration	18

## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012

### Ownership

The Company's ultimate parent company is Arch Capital Group Ltd ("ACGL"), a Bermuda-based company with \$5.6bn (2011: \$5.0bn) of capital at 31 December 2012. Through operations in Bermuda, the United States, Europe, Canada, Australia and South Africa, ACGL provides insurance and reinsurance on a worldwide basis. ACGL is listed on the NASDAQ US stock exchange.

The Company has two subsidiary companies in Australia and South Africa: Arch Underwriting at Lloyd's (Australia) Pty Limited ("AUALA") and Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited ("AUMALSA"). They are licensed to trade as Underwriting Managing Agents with delegated authority to bind risks on behalf of Syndicate 2012.

### Principal Activities and Business Review

The principal activity of the Company continues to be that of a registered Lloyd's Managing Agent for Syndicate 2012. The Company is responsible for managing all aspects of Syndicate 2012's affairs. This includes the organisation of underwriting and support staff, the provision of services to the Syndicate, the management and oversight of outsourced functions, and corporate governance. The Company is responsible for the assessment and management of risk in relation to the activities of Syndicate 2012.

The underwriting capacity of managed Syndicate 2012 by underwriting year is as follows:

Year of Account 2013 = £200m  
Year of Account 2012 = £200m  
Year of Account 2011 = £166m

### Results

The Company's profit for the year is £0.2m (2011: £0.2m). The profit arises from the managing agency fee charged to Syndicate 2012. There are no profit commission arrangements between the Company and managed Syndicate 2012.

No dividends were paid or proposed in the year.

The Company's key performance indicators for the period are considered to be turnover and profit and are presented below:

	2012	2011
Turnover	£13.4m	£10.8m
Profit for the financial period	£0.2m	£0.2m

### Outlook

The Company has continued to be the Managing Agent for Syndicate 2012 throughout the year and this is expected to continue for the foreseeable future. Syndicate 2012 will continue to underwrite in 2013 with underwriting capacity of £200m.

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

## Directors' Report (continued)

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 risk management. 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

Details of the risks are described in the notes to these accounts

### Board Corporate Governance

The Company maintains a strong, robust and effective system of corporate governance, which provides for sound and prudent management of the integrated operations for Arch Insurance Company (Europe) Limited, Arch Underwriting at Lloyd's Ltd, Arch Underwriting at Lloyd's (Australia) Pty Limited and Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited (collectively, "integrated operations"). A strong compliance culture underpins all aspects of its business, and it is embedded in Company's philosophy and approach that compliance with best practice and with applicable laws and regulations forms part of a profitable business model.

#### *Composition of the Board, including the Non-Executive Directors*

The purpose of the Board of Directors is to act as the main governing body of the Company, and this is detailed in the Board's Terms of Reference which include a schedule of matters reserved for the Board of Directors.

The Board of Directors for the Company consists of nine Directors, of which five Directors are non-executive Directors. The Chairman of the Board is an independent non-executive Director and was appointed in 2009.

#### *The board and committee structures*

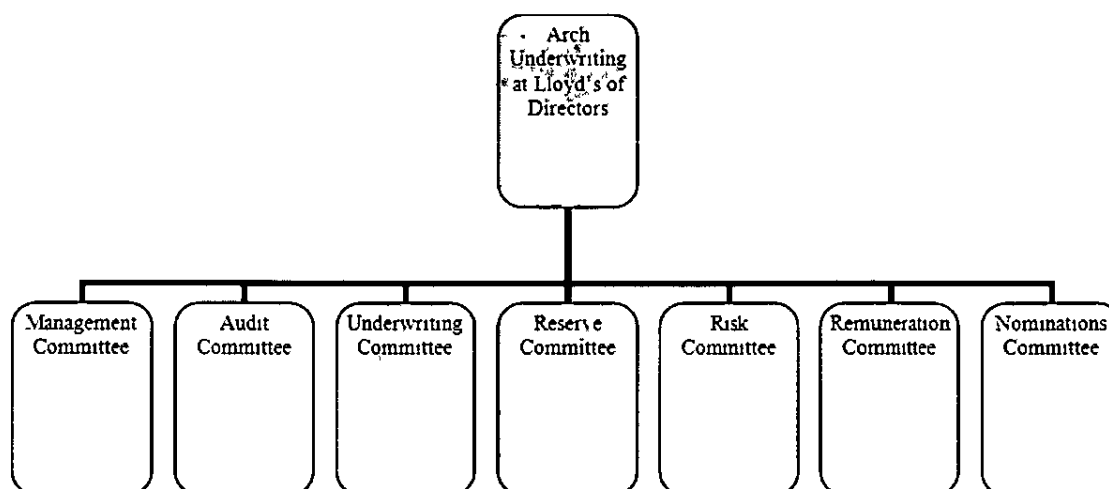
The Articles of Association of the Company allows the Board of Directors to delegate powers to individual Directors or to any committee consisting of one or more persons. Where such a committee is established, its proceedings and decisions must be fully reported to the Board of Directors at the next meeting following each meeting of the Committee.

The activities and effectiveness of the Committees are reviewed and evaluated at the quarterly Board meetings by reports from the key officers and special assignments and responsibilities allocated by the Board if deemed necessary.

While retaining their responsibilities, the Board has established seven committees to support them with the management of the Company.

Name of Committee	Function of Committee
Audit Committee	Oversight of financial reporting, disclosure and the control environment
Management Committee	Management of the day-to-day operations ensuring that the Company's strategy and annual business plan is met
Risk Committee	Oversight of risk management and control environment
Reserve Committee	Review and management of the best estimate level of technical reserves to meet outstanding liabilities
Underwriting Committee	Review and management of the underwriting activities
Remuneration Committee	Oversight of remuneration of senior management
Nominations Committee	Oversight of nominations to the Board of Directors

## Directors' Report *(continued)*



### *Review of governance arrangements*

On an annual basis, the Company undertakes a comprehensive review of its high-level governance arrangements, including Board effectiveness, committee Terms of Reference and other key areas. This review is undertaken by independent legal advisors and the report is submitted to the Board of Directors for comment and approval. Any recommendations, upon agreement by the Board, are embedded in the governance structure on a timely basis.

Appointments to senior positions, including all Directors, are made following due consideration of the fitness and propriety of the individual concerned. This assessment is made with regard to the FSA and Lloyd's Franchise Board requirements, and in accordance with the guidance provided by EIOPA for Solvency II.

### *Control frameworks*

The Company maintains an effective system of governance which provides for sound and prudent management of the integrated operations, as embedded in the Arch Group Code of Conduct and the Risk Management and Compliance Framework documents and related appendices. Management operates within an adequately transparent organisational structure with a clear allocation and appropriate segregation of responsibilities across the various functional areas.

The Company has established an effective, efficient and robust internal control structure via a coherent, comprehensive and continuous set of mechanisms designed to ensure

- effectiveness and efficiency of the undertaking's operations in view of its risks and objectives,
- availability and reliability of financial and non-financial information, and
- compliance with applicable laws, regulations and administrative provisions

The procedures and processes surrounding the internal control structure are documented in the various policy documents and process maps and are updated continually as required. All policies, procedures and process maps are reviewed formally at least annually, and relevant elements are approved at least annually by the Board of Directors.

The internal control structure is integrated within business strategy, business plans and organisational structure and forms a key element of the daily management. The structure focuses on maintaining the on-going validity of systems and management information to best inform and govern the continued effectiveness and efficiency of the operations.

## **Directors' Report** *(continued)*

### *Internal Audit function*

The global Arch Group has a designated internal audit function, led by the ACGL Director of Internal Audit Services. The Company is included in the annual scope of the group's internal audit work.

The internal audit function is responsible for assessing management's adherence to and the effectiveness of internal systems and controls, procedures and policies. The Internal Audit team is adequately staffed by competent individuals and is objective and independent and is seen to be objective and independent of the day-to-day activities of the Company's management.

The Internal Audit team has appropriate access to senior management, to all staff and to all records. No restrictions are placed on the scope of the team's work which is planned by Internal Audit, in conjunction with management, and presented to the Audit Committee annually. Where necessary, the Company utilises external resources to support its work, with appropriate budgets monitored by the Director of Internal Audit.

The Management Committee is required to inform the Internal Audit team of all noted control deficiencies, when losses are sustained and or of any definite suspicion of irregularities. Internal Audit is required to define the appropriate parameters and or triggers for this obligation.

The Group Head of Internal Audit reports directly to the Audit Committee. For all internal audit reports, recommendations for all findings are provided alongside a timeline for remediation, and these are monitored by Group Internal Audit and by the Audit Committee. Internal Audit presents its Annual Plan at the start of each calendar year, which outlines the risk-based approach and areas for focus for year. A rolling three year plan is maintained for Internal Audit work.

### **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 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 contribute to a personal development plan with their managers.

### **Directors**

The names of the Directors of the Company during the period of this report are listed on page 18 of these financial statements.

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the 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

## **Directors' Report** *(continued)*

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.

### **Statement of Disclosure of Information to Auditors**

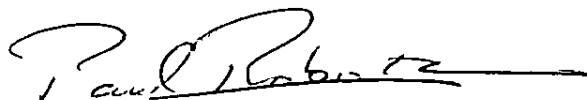
Each of the persons who is a Director at the date of this report confirms that

- 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 2012 of which the auditors are unaware, and
- 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.

### **Independent Auditors**

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

On behalf of the Board



**P. Robotham**  
*Director*

26 March 2013

## **Independent Auditors' Report to the Members of Arch Underwriting at Lloyd's Ltd**

We have audited the financial statements of Arch Underwriting at Lloyd's Ltd for the year ended 31 December 2012 which comprises the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statement of Changes in Equity 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 Directors' Responsibilities Statement set out on page 4 and 5, 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2012 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.

### **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



Mark Bolton (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
27 March 2013



**Statement of Comprehensive Income**  
For the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Revenue	5	13,394	10,776
Administrative expenses		(13,137)	(10,525)
<b>Operating profit</b>		<b>257</b>	<b>251</b>
<b>Profit before income tax</b>		<b>257</b>	<b>251</b>
Income tax (expense)	8	(63)	(67)
<b>Profit and total comprehensive income for the year wholly attributable to the owners of the company</b>		<b>194</b>	<b>184</b>

*The notes on pages 10 to 17 are an integral part of the comprehensive income*

All amounts reflect continuing operations

The attached notes form part of these financial statements

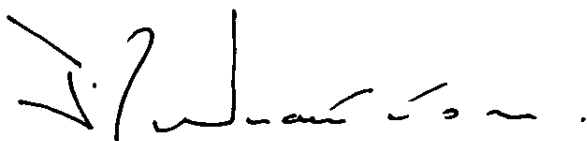
## Statement of Financial Position

As at 31 December 2012

	Notes	2012 £000	2011 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	9	443	443
<b>Current assets</b>			
Prepayments	10	3	7
Cash and cash equivalents		1,041	2,054
Trade and other receivables	10	1,408	1,326
		<u>2,452</u>	<u>3,387</u>
<b>Total assets</b>		<u>2,895</u>	<u>3,830</u>
<b>Equity and liabilities</b>			
Shareholders equity	11	400	400
Retained earnings		<u>1,964</u>	<u>1,770</u>
<b>Total equity (wholly attributable to the owners of the Company)</b>		2,364	2,170
<b>Current liabilities</b>			
Trade and other payables	12	453	1,645
Current income tax liability		78	15
<b>Total liabilities</b>		<u>531</u>	<u>1,660</u>
<b>Total equity and liabilities</b>		<u>2,895</u>	<u>3,830</u>

*The notes on pages 10 to 17 are an integral part of the financial statements*

These financial statements were approved by the Board of Directors on 26 March 2013 and were signed on its behalf by



**J. Weatherstone**  
Director

27 March 2013

**Statement of Changes in Equity**  
As at 31 December 2012

	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
<b>Balance at 1 January 2011</b>	400	1,586	1,986
Profit and total comprehensive income for the year	0	184	184
<b>Balance at 31 December 2011</b>	400	1,770	2,170
Profit and total comprehensive income for the year	0	194	194
<b>Balance at 31 December 2012</b>	400	1,964	2,364

**Statement of Cash Flows**  
For the year ended 31 December 2012

	<b>2012 £000</b>	<b>2011 £000</b>
Profit for the year	194	184
Changes in operational assets	(78)	(540)
Changes in operational liabilities	(1,192)	1,233
Changes in current tax	63	(291)
Foreign exchange loss	-	39
<b>Net cash flows from operating activities</b>	<b>(1,013)</b>	<b>625</b>
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>
<b>Net cash flows from investing activities</b>	<b>-</b>	<b>-</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,013)</b>	<b>625</b>
<b>Cash and cash equivalents at 1 January 2012</b>	<b>2,054</b>	<b>1,429</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,013)</b>	<b>625</b>
<b>Cash and cash equivalents at 31 December 2012</b>	<b>1,041</b>	<b>2,054</b>

## Notes to the Financial Statements

### 1 General Information

Arch Underwriting at Lloyd's Ltd is a Company domiciled and incorporated in England and Wales. The address of the registered office is provided within Directors and Administration on page 18 and the nature of the company's operating and principal activities are included within the Directors' Report.

### 2 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), IFRIC 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 Company is exempt from preparing consolidated financial statements by virtue of the Companies Act 2006, as its ultimate parent Company prepares publicly available consolidated financial statements that are deemed to satisfy the equivalence requirement of section 401 of the Companies Act 2006. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements are prepared and presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated.

### 3 Accounting Policies

#### (a) Revenues

Managing agency revenues include income from expense recharges to Syndicate 2012, Arch Underwriting at Lloyd's (Australia) Pty Limited and Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited.

Also included within revenues are managing agency fees, which are levied as a proportion of Syndicate capacity.

#### (b) Functional currency

The functional currency of the Company has been determined to be Pounds Sterling.

#### (c) 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 income statement.

#### (d) 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.

#### (e) Trade 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.

#### (f) 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)*

### 3 Accounting Policies *(continued)*

#### *(g) 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.

#### *(h) Investments in subsidiaries*

In the balance sheet of the Company, investments in subsidiaries are stated at cost, unless their value has been impaired in which case they are valued at their net realisable value or value in use as appropriate.

#### *(i) 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.

#### *(j) 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.

#### *(k) Use of critical estimates, judgements and assumptions*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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.

#### *(l) New standards and interpretations not yet adopted*

The following is a list of standards that are in issue but are not effective in 2012, but have been endorsed for use in the EU, together with the effective date of application.

- IAS 1 Amendment Presentation of other items of comprehensive income (effective 1 January 2013)

In addition, the following is a list of standards that are in issue but are not effective in 2012, and have not yet been endorsed for use in the EU, together with the effective date of application to the group.

- IFRS 9 Financial Instruments (effective 1 January 2015)
- Improvements to IFRSs (effective 1 January 2013)

The implications of these standards and interpretations are under review.

## Notes to the Financial Statements (continued)

### 4 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 IT support, operating systems maintenance, policy administration services 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.

Management continually reviews potential operational risk factors and has enacted controls to meet these. They have been classified as follows:

Operational Risk Classification	Description
People	Loss of staff (underwriting and key non-underwriting) or inability to recruit, issues concerning integrity and competence of staff, including training, succession, manual inputting error, lack of management supervision and or failure of escalation to management, data protection breach or loss
Processes	Inappropriate underwriting, inappropriate claims and reserve handling, inappropriate reinsurance purchasing, failure of a third party supplier, inadequate segregation of duties, inadequate management information, weak processing controls, failure of corporate governance
Systems	Hardware/software failure, network telecommunications software, IT third party provider failure, inadequate virus protection, inadequate system or security information, insufficient or untested business continuity processes, insufficient processing capacity, systems error
External events, including physical security and business continuity	Natural or man-made disasters leading to business continuity threat, external financial crime, including theft or fraud, changes to the regulatory environment, external security breach, power outage
Outsourcing, including delegated underwriting	Failure of an outsourced service provider, including breach of agreement
Financial crime, including Anti-Money Laundering	Internal or external fraud and or financial crime
Legal	Risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of an institution's activities

#### *Credit Risk*

Credit risk arises primarily from service agreements with related parties. The Company has credit exposure to Syndicate 2012, Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited and Arch Underwriting at Lloyd's (Australia) Pty Ltd. This risk is mitigated by internal financial and capital commitments to those companies from companies forming part of the ACGL group of companies.

## Notes to the Financial Statements (continued)

### 4 Management of Risks (continued)

#### 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 fixed 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.

### 5 Revenue

	2012 £000	2011 £000
Managing agency revenues	13,394	10,776
	<u>13,394</u>	<u>10,776</u>

Turnover is all derived within the United Kingdom.

### 6 Auditors' Remuneration

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

	2012 £000	2011 £000
Fees payable to the company's auditors and their associates for the audit of the company's annual accounts	(30)	(30)
Fees payable to the company's auditors and their associates for other services		
- Other non-audit services	(10)	(4)
	<u>(40)</u>	<u>(34)</u>

## Notes to the Financial Statements (continued)

### 7 Directors' Remuneration and Employees Costs

The Company entered into a secondment and service agreement with Arch Europe Insurance Services Ltd ("AEIS") in 2009, whereby services in the form of staff and facilities are provided to the Company. The Company is recharged staff costs from AEIS in accordance with the time allocations of the staff.

	2012 £000	2011 £000
<b>Directors' emoluments</b>		
Aggregate emoluments	1,160	865
Amounts receivable under long-term incentive schemes	-	-
Company pension contributions to money purchase schemes	80	74
	<u>1,240</u>	<u>939</u>
	2012 £000	2011 £000
Highest paid Director		
Aggregate of emoluments and awards under long term incentive schemes, including nil pension contributions	365	255
Pension contributions	28	26
	<u>393</u>	<u>281</u>
	Number	Number
Number of Directors who received shares in Arch Capital Group Ltd	5	5
Number of Directors participating in money purchase scheme	5	5
Number of Directors who exercised share options	-	-

The highest paid Director received share allocations during the year under a long-term incentive award, with no shares being exercised during the year.

Directors' remuneration and staff costs are recharged to Syndicate 2012, Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited and Arch Underwriting at Lloyd's (Australia) Pty Limited on a time apportioned basis.



## Notes to the Financial Statements (continued)

### 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

	2012 £000	2011 £000
<b>Current tax (expense)</b>		
Current period	(63)	(67)
	<u>(63)</u>	<u>(67)</u>

Corporation tax is calculated at 24.5% of the estimated taxable profit for the year (2011: 26.5%)

	2012 £000	%	2011 £000	%
<b>Reconciliation of effective tax rate</b>				
Profit before tax on continuing operations	257		251	
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	(63)	(24.5)	(67)	(26.5)
Tax effect of expenses that are not deductible in determining taxable profit	-	-	-	-
Adjustments for prior year	-	-	-	-
Tax (expense) and effective tax rate for the year	<u>(63)</u>	<u>(24.5)</u>	<u>(67)</u>	<u>(26.5)</u>

### 9 Investment in Subsidiaries

AUAL has investments in subsidiaries totalling £443,160. The Directors believe that the carrying value of the investments is supported by their underlying net assets. The Company has an investment in AUALA of A\$400,000 (£222,760) and AUMALSA of ZAR 2,600,000 (£220,400). Both companies are licensed to trade as Underwriting Managing Agents with dedicated authority to bind Syndicate 2012.

Set out below are the Company's subsidiaries, as at 31 December 2012, with details of the percentages of nominal value and voting rights held by the Company.

Subsidiaries	Country of Incorporation	Class of share held	Percentage of nominal value and voting rights held by the Company
Arch Underwriting at Lloyd's (Australia) Pty Limited	Australia	Ordinary	100%
Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited	South Africa	Ordinary	100%

## Notes to the Financial Statements (continued)

### 10 Trade and Other Receivables

	2012 £000	2011 £000
Prepayments	3	7
Amounts owed from related parties	1,408	1,326
	<u>1,411</u>	<u>1,333</u>

### 11 Called Up Share Capital

	2012 £000	2011 £000
<i>Authorised</i>		
4,000 Ordinary shares of £100 each	<u>400</u>	<u>400</u>
<i>Issued and fully paid</i>		
4,000 Ordinary shares of £100 each	<u>400</u>	<u>400</u>

### 12 Trade and Other Payables

	2012 £000	2011 £000
Accrued expenses and other creditors	<u>453</u>	<u>1,645</u>
	<u>453</u>	<u>1,645</u>

### 13 Ultimate Parent Company

The immediate parent of the Company is Arch Reinsurance Ltd, a Company incorporated in Bermuda. The ultimate parent company is 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, Wessex House, 45 Reid Street, Hamilton HM12, Bermuda.

## Notes to the Financial Statements *(continued)*

### 14 Related Party Transactions

The Company acts as an underwriting agent and manages Syndicate 2012 for which it receives a managing agent fee. The Company incurs staff and facility costs through a recharge from AEIS. The Company recharges some of these costs to its subsidiaries, Arch Underwriting at Lloyd's (Australia) Pty Limited and Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited.

The amounts sourced from related parties are detailed below

	2012 £000	2012 £000	2011 £000	2011 £000
	Income and (expenses) incurred	Receivable/ (payable)	Income and (expenses) incurred	Receivable/ (payable)
Syndicate 2012	12,938	(95)	10,316	(1,234)
AUAL Australia Pty Ltd	256	556	212	69
AUMAL South Africa Pty Ltd	211	224	254	(53)
Arch Europe Insurance Services Ltd	(12,623)	629	(9,779)	1,257
Arch Insurance Company (Europe) Limited	-	358	-	(358)

## **Directors and Administration**

### **Directors**

W Beveridge	Resigned 8 <sup>th</sup> January 2013
D Brand	
N Denniston	Appointed 1 <sup>st</sup> April 2012
E Fullerton-Rome	
D Hipkin	
M Kier	
M Lyons	Resigned 31 <sup>st</sup> August 2012
D McElroy	
M Murphy	Appointed 1 <sup>st</sup> September 2012
M Nilsen	Resigned 31 <sup>st</sup> December 2012
P Robotham	
J Weatherstone	

### **Company Secretary**

K Christensen	Resigned 31 <sup>st</sup> August 2012
TMF Corporate Secretarial Services Limited	Appointed 1 <sup>st</sup> September 2012

### **Registered Number**

06645822

### **Registered Office**

6<sup>th</sup> Floor  
Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AZ

### **Principal Bankers**

Barclays Bank Plc, London

### **Independent Auditors**

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

### **Website**

[www.archinsurance.co.uk](http://www.archinsurance.co.uk)