

Arch Europe Insurance Services Ltd  
Registered number 06645619

*Annual Report and Financial Statements  
for the year ended 31 December 2017*

**Arch Europe Insurance Services Ltd**  
(Registered number: 06645619)

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**Annual Report and Financial Statements for the year ended 31 December 2017**

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## Strategic Report for the year ended 31 December 2017

The directors present their strategic report of Arch Europe Insurance Services Ltd ("the Company") for the year ended 31 December 2017.

### 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 and total comprehensive income for year of £0.7m (2016: £0.1m) generated through a secondment and service charge received from AICE and AUAL.

During the year, the Company paid a dividend of £0.80 per ordinary share (2016: £0.80).

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

	2017	2016
Revenue	£38.9m	£37.9m
Operating Profit	£1.2m	£0.9m
Profit and total comprehensive income for the year	£0.7m	£0.1m
Net Assets	£11.1m	£12.2m

### 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 for the year ended 31 December 2017 (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 Arch Global Services Inc.

The Company seeks to limit exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation.

#### 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 2018. 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.



Matthew Shulman  
Director  
24 September 2018

## **Directors' Report for the year ended 31 December 2017**

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 2017.

### **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 of the accounts.

There are no branch companies.

During the year, the Company paid a dividend of £0.80 per ordinary share (2016: £0.80).

The auditors, PricewaterhouseCoopers LLP, have been reappointed for 2018.

### **Ownership**

The Company's ultimate parent company is Arch Capital Group Ltd ("ACGL"), a Bermuda-based company with \$11.3 billion (2016: \$10.5 billion) of capital, comprised of shareholders' equity and debt, at 31 December 2017. 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 Prudential Regulation Authority ("PRA") regulated insurance company that underwrites Property, Energy, Marine, Personal Accident, Executive Assurance, Professional Liability and General Liability 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.

At the end of 2017, the Company had 146 staff. To ensure we maintain high performance standards across the organisation we conduct detailed annual appraisals focusing on identifying skills gaps and ensuring professional capabilities are maintained and advanced.

### **Directors**

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

J. Kittinger  
M. Shulman  
B. Singh (resigned 26 March 2018)

The directors are covered by third party indemnity insurance policies.

## **Directors' Report for the year ended 31 December 2017 (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 the Strategic Report on page 1.

### **Business Review**

Please refer to the Strategic Report on page 1.

### **Principal Risk and Uncertainties**

Please refer to the Strategic Report on page 1.

### **Future Developments**

Please refer to the 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the 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 for the year ended 31 December 2017 (continued)**

**Statement of disclosure of information to independent auditors**

Each of the persons who are directors at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he 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



**Matthew Shulman**  
*Director*  
24 September 2018

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

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Arch Europe Insurance Services Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Statement of Financial Position as at 31 December 2017, the Statement of Comprehensive Income; the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### ***Responsibilities of the directors for the financial statements***

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### ***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### ***Use of this report***

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.

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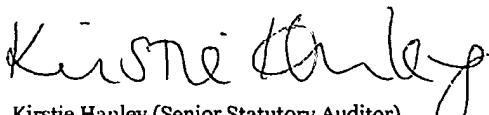
## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

We have no exceptions to report arising from this responsibility.



Kirstie Hanley (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
24 September 2018

**Statement of Comprehensive Income**  
For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue	4	38,944	37,924
Administrative expenses		<u>(37,776)</u>	<u>(37,010)</u>
<b>Operating profit</b>	5	<b>1,168</b>	<b>914</b>
Finance costs		<u>(17)</u>	<u>(22)</u>
<b>Profit before taxation</b>		<b>1,151</b>	<b>892</b>
Tax on profit	10	<u>(419)</u>	<u>(768)</u>
<b>Profit and total comprehensive income for the year</b>		<b><u>732</u></b>	<b><u>124</u></b>

All amounts reflect continuing operations.

The notes on pages 11 to 22 form part of these financial statements.

**Statement of Financial Position**  
As at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Fixed assets</b>			
Intangible assets	14	1,568	1,675
Property, plant and equipment	13	390	467
		<b>1,958</b>	<b>2,142</b>
<b>Current assets</b>			
Trade and other receivables	12	14,827	13,542
Prepayments		724	747
Cash and cash equivalents		804	1,045
Deferred tax	11	2,121	2,095
<b>Current assets:</b>		<b>18,476</b>	<b>17,429</b>
Creditors: amounts falling due within one year	15	9,354	7,389
<b>Net current assets</b>		<b>9,122</b>	<b>10,040</b>
<b>Total assets less current liabilities</b>		<b>11,080</b>	<b>12,182</b>
<b>Net assets</b>		<b>11,080</b>	<b>12,182</b>
<b>Equity</b>			
Called up share capital	16	5,000	5,000
Retained earnings		6,080	7,182
<b>Total shareholders' funds</b>		<b>11,080</b>	<b>12,182</b>

The notes on pages 11 to 22 are an integral part of these financial statements.

The financial statements on pages 8 to 22 were authorised for issue by the Board of Directors on 24 September 2018 and were signed on its behalf by:

  
Jason Kittinger  
Finance Director  
24 September 2018

**Statement of Changes in Equity**  
For the year ended 31 December 2017

	Notes	Called up share capital £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2016</b>		<b>5,000</b>	<b>8,372</b>	<b>13,372</b>
Profit and total comprehensive income for the year		-	124	124
Share-based payments	9	-	1,943	1,943
Tax credit relating to share-based payments	10	-	743	743
Dividends	18	-	(4,000)	(4,000)
<b>Balance at 31 December 2016</b>		<b>5,000</b>	<b>7,182</b>	<b>12,182</b>
Profit and total comprehensive income for the year		-	732	732
Share-based payments	9	-	1,690	1,690
Tax credit relating to share-based payments	10	-	476	476
Dividends	18	-	(4,000)	(4,000)
<b>Balance at 31 December 2017</b>		<b>5,000</b>	<b>6,080</b>	<b>11,080</b>

The notes on pages 11 to 22 form part of these financial statements.

## Notes to the Financial Statements

### 1 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.

### 2 Summary of significant accounting policies

All accounting policies detailed below have been applied consistently.

#### (a) Basis of preparation

The Company has adopted Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements of the Company have been prepared in accordance with FRS 101 and prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. 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 pounds sterling and are rounded to the nearest thousand unless otherwise stated.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows),
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third statement of financial position),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)

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

### 2 Summary of significant accounting policies (*continued*)

#### (a) *Basis of preparation (continued)*

- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

#### (b) *Going concern*

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create uncertainty particularly over the level of demand for the Company's products. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

#### (c) *Secondment and service charge*

Secondment and service charge 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.

#### (d) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in pounds sterling (£), which is also the Company's functional currency.

#### (e) *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.

#### (f) *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.

#### (g) *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 disclosed in the notes to the financial statements. If not, they are presented as non-current assets.

#### (h) *Creditors*

Creditors represent obligations to pay for goods or services that have been acquired in the ordinary course of business. 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)

### 2 Summary of significant accounting policies (continued)

#### (i) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case tax is also recognised either in other comprehensive income or directly in equity, as the case may be.

The current tax expense is calculated using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and, where appropriate, establishes provisions on the basis of amounts expected to be paid to the relevant tax authorities.

Current income tax is the expected tax payable or recoverable on the taxable profit or loss for the year, plus any adjustment to tax payable in respect of previous periods, net of any amounts already paid in respect of current and prior periods.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to set off current income tax assets against current income tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The carrying amounts of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of those deferred tax assets to be utilised.

#### (j) Property, plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Residual values are reviewed at each year end.

Gains and losses on disposals of items of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the disposed items, and are recognised net within other income in the income statement.

##### (ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

## Notes to the Financial Statements (continued)

### 2 Summary of significant accounting policies (continued)

#### (j) Property, plant and equipment (continued)

##### (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 within the Statement of Comprehensive Income 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 estimated 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.

#### (k) Intangible assets

Intangible assets comprise computer software, which is measured at cost or deemed cost less accumulated depreciation and impairment losses. Amortisation is recognised within the Statement of Comprehensive Income on a straight-line basis over the estimate useful life of the computer software, which is 6 years.

#### (l) 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.

The amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting year.

#### (m) Leases

Rentals payable under operating leases are charged to the Statement of Comprehensive Income in equal annual instalments over the period of the lease.

#### (n) Share-based payment arrangements

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.

#### (o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.



## Notes to the Financial Statements (continued)

### 2 Summary of significant accounting policies (continued)

#### (p) 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### (q) 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.

### 3 Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the property plant and equipment, and notes 2(j) and 2(k) for the useful economic lives for each class of assets.

### 4 Revenue

	2017 £000	2016 £000
Secondment and service charge (All UK)	38,944	37,924

### 5 Operating Profit

	2017 £000	2016 £000
Operating profit is arrived at after charging:		
Depreciation	86	89
Amortisation	588	562
Operating lease rentals:		
- Land and buildings	1,034	1,012

## Notes to the Financial Statements (continued)

### 6 Auditors' Remuneration

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

	2017 £000	2016 £000
Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements	37	37
Fees payable to the Company's auditors and their associates for other services:		
- Tax advisory services	-	-
	<u>37</u>	<u>37</u>

### 7 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 2017 which require disclosure.

	2017 £000	2016 £000
<b>Directors' emoluments</b>		
Aggregate emoluments	2,683	1,605
Amounts receivable under long-term incentive schemes	-	-
Company pension contributions to money purchase schemes	47	28
Compensation for loss of office	-	958

Highest paid director (included above)

Aggregate of emoluments and awards under long-term incentive schemes, including £nil (2016: £nil) in pension contributions	1,341	539
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Number of directors who received shares in ACGL	5	2
Number of directors participating in money purchase scheme	2	2
Number of directors who exercised share options	5	3

The highest paid director received share allocations during the year under a long-term incentive scheme and exercised options during the year.

## Notes to the Financial Statements (continued)

### 7 Directors' and Employees' Costs (continued)

#### (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:

	2017 Number	2016 Number
Underwriting	63	67
Administration and Finance	59	55
Claims	21	19
	<u>143</u>	<u>141</u>

	2017 £000	2016 £000
The aggregate payroll costs of these persons were as follows:		
- Wages and salaries	12,507	12,277
- Social security costs	3,215	2,392
- Other pension costs	1,460	1,320
- Share-based payments	1,690	1,943
	<u>18,873</u>	<u>17,932</u>

### 8 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 (2016: nil).

### 9 Share-Based Payment Arrangements

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.

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 2017 have an exercise price in the range of \$19.29 to \$96.26 (2016: \$19.29 to \$71.70) and a weighted average contractual life of 5.91 years (2016: 4.90 years).

The weighted average share price at the date of exercise for share awards exercised in 2017 was \$93.87 (2016: \$75.22).

The Company also has 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.

The charge to the Statement of Comprehensive Income in respect of share-based payment transactions and the corresponding credit to equity was £1,690,195 (2016: £1,942,763).

## Notes to the Financial Statements (continued)

### 10 Tax on profit

Tax expense included in the income statement:	2017 £000	2016 £000
Current tax:		
- UK corporation tax on profits for the year	-	48
- Transfer from equity on share-based payments	1,310	206
- Adjustments in respect of prior years	(31)	333
Total current tax	1,279	587
Deferred tax (note 11):		
- Origination and reversal of temporary differences	(91)	(648)
- Adjustments in respect of prior years	54	(78)
- Transfer from equity on share-based payments	(834)	640
- Impact of change in UK tax rate	11	267
Total deferred tax	(860)	181
Tax expense reported in the Statement of Comprehensive Income	419	768

In addition to the amount charged to the income statement, the following amounts relating to tax have been charged or (credited) directly to equity:	2017 £000	2016 £000
Current tax credit relating to share-based payments	(1,310)	(206)
Deferred tax:		
- Charge / (credit) relating to share-based payments	834	(640)
- Impact of change in UK tax rate	-	103
Total tax credited directly to equity	(476)	(743)

### Reconciliation of tax expense

The tax expense for the year is higher (2016: higher) than the standard rate of corporation tax in the United Kingdom for the year ended 31 December 2017 of 19.25% (2016: 20.00%).

The differences are explained below:	2017 £000	2016 £000
Profit before taxation	1,151	892
Profit multiplied by the standard rate of tax in the UK of 19.25% (2016: 20.00%)	221	178
Effects of:		
- Expenses not deductible for tax purposes	61	68
- Impact of change in UK tax rate	11	267
- Adjustments in respect of prior years	23	255
- Permanent difference on share options and restricted stock	(373)	(846)
- Transfer to equity on employee share-based payment arrangements	476	846
Tax expense reported in the Statement of Comprehensive Income	419	768

## Notes to the Financial Statements (continued)

### 10 Tax on profit (continued)

The tax rate for the current year is lower than the prior year due to changes in the rates of UK corporation tax, the main rate of which decreased from 20% to 19% with effect from 1 April 2017.

Changes to UK corporation tax rates were enacted on 15 September 2016 as part of Finance Act 2016. These changes included a further reduction to the main rate of tax, which will reduce from 19% to 17% with effect from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

### 11 Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Company and the movements thereon during the current and prior reporting periods:

	Decelerated capital allowances £000	Share- based payments £000	Unrelieved tax losses £000	Other £000	Total £000
At 1 January 2016	173	1,481	-	85	1,739
Charged to the income statement (note 10)	5	(178)	-	(8)	(181)
Credited direct to equity	-	537	-	-	537
At 1 January 2017	178	1,840	-	77	2,095
Credited to the income statement (note 10)	(3)	6	934	(77)	860
Charged direct to equity	-	(834)	-	-	(834)
At 31 December 2017	175	1,012	934	-	2,121

Reflected in the Statement of Financial Position as follows:

	2017 £000	2016 £000
Deferred tax assets	2,121	2,095
Deferred tax liabilities	-	-
Net deferred tax assets	2,121	2,095

The deferred tax assets and liabilities are likely to be realised after more than one year as the temporary differences reverse.

### 12 Trade and Other Receivables

	2017 £000	2016 £000
Due within one year:		
Amounts owed by group undertakings	13,418	13,142
Other	1,409	400
	14,827	13,542

## Notes to the Financial Statements (continued)

### 13 Property, Plant and Equipment

	Leasehold Improvements	Furniture and Fixtures	Other computer Hardware	Total
	£000	£000	£000	£000
Book cost:				
At 1 January 2017	445	359	722	1,526
Additions	-	9	-	9
At 31 December 2017	445	368	722	1,535
Accumulated depreciation:				
At 1 January 2017	78	288	693	1,059
Charge for the year	44	22	20	86
At 31 December 2017	122	310	713	1,145
Net book value:				
31 December 2017	323	58	9	390
31 December 2016	367	71	29	467

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

### 14 Intangible Assets

	Computer software under service contract	Total
	£000	£000
Book cost:		
At 1 January 2017	6,333	6,333
Additions	481	481
At 31 December 2017	6,814	6,814
Accumulated amortisation:		
At 1 January 2017	4,658	4,658
Charge for the year	588	588
At 31 December 2017	5,246	5,246
Net book value:		
31 December 2017	1,568	1,568
31 December 2016	1,675	1,675

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

## Notes to the Financial Statements (continued)

### 15 Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Amounts falling due within one year:		
Other creditors	53	50
Amounts owed to group undertakings	3,186	825
Current tax liabilities	-	48
Accruals and deferred income	6,115	6,466
	<u>9,354</u>	<u>7,389</u>

### 16 Called Up Share Capital

	2017	2016
	£000	£000
<i>Issued and fully paid</i>		
5,000,000 (2016: 5,000,000) Ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>

### 17 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:

	2017	2016
	£000	£000
Within one year	1,495	1,332
In the second to fifth years inclusive	<u>5,580</u>	<u>4,207</u>
	<u>7,075</u>	<u>5,539</u>

### 18 Dividends

The following table shows the dividends paid to equity shareholders:

	2017		2016	
	Pence (per ordinary share)	Dividend Paid £000	Pence (per ordinary share)	Dividend paid £000
Interim dividend for the year	80	4,000	80	4,000
	<u>80</u>	<u>4,000</u>	<u>80</u>	<u>4,000</u>

### 19 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 HM 08, Bermuda.

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

### **20 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 2017 which require disclosure other than those detailed in note 7.

#### **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 Inc, a US service company, and Arch Underwriters Europe Limited UK branch, the UK establishment of an Irish company that acts as an intermediary and provides support staff to other Arch group companies



Arch Europe Insurance Services Ltd  
Registered number 06645619

*Annual Report and Financial Statements  
for the year ended 31 December 2017*

## **Directors and Administration**

### **Directors**

J. Kittinger  
M. Shulman  
B. Singh (resigned 26 March 2018)

### **Company Secretary**

TMF Corporate Administration Services Limited

### **Registered Number**

06645619

### **Registered Office**

5th 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](http://www.archinsurance.co.uk)