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Syndicate 2012

Annual Report and Accounts
For the year ended 31 December 2015

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Strategic Report for the year ended 31 December 2015

The Directors of Arch Underwriting at Lloyd's Ltd ("AUAL", "the Managing Agent" or "the Company") have pleasure in presenting the annual report and financial statements of managed Syndicate 2012 (the "Syndicate") for the year ended 31 December 2015.

The Syndicate is a wholly aligned Syndicate, with underwriting capacity being provided by sole participant Arch Syndicate Investments Ltd.

The ultimate parent company of Arch Syndicate Investments Ltd is Arch Capital Group Ltd ("ACGL"), a Bermuda-based company with \$7.10bn (2014: \$7.03bn) of capital as at 31 December 2015. Through operations in Bermuda, the United States of America, Europe, Canada, Australia and South Africa, ACGL writes insurance and reinsurance on a worldwide basis. ACGL is listed on the NASDAQ U.S. stock exchange.

Principal Activities

The principal activity of Syndicate 2012 is the underwriting of insurance business at Lloyd's. The Syndicate began trading at Lloyd's on 1 April 2009.

The underwriting strategy is to operate in lines of business in which underwriting expertise can make a meaningful difference to operating results. Our insurance business focuses on talent-intensive rather than labour-intensive business and seeks to operate profitably across all product lines. Syndicate 2012 underwrites at Lloyd's in the wholesale insurance market and through selective delegated underwriting authorities for regional markets. To achieve our objectives our insurance operating principles are to:

- Capitalise on profitable underwriting opportunities;
- Centralise responsibility for underwriting;
- Maintain underwriting discipline throughout the market cycle;
- Focus on providing superior claims management; and
- Utilise broker and managing general agent distribution platforms.

Our underwriting philosophy is to generate an underwriting profit through prudent risk selection and appropriate pricing across all types of business. To achieve this, we encourage adherence to uniform underwriting standards across each product line focusing on: risk selection; desired attachment point; limits and retention management; and underwriting due diligence, including financial condition, claims history, management and exposure; underwriting authority and approval limits.

Syndicate 2012 underwrites the following lines of business:

- Casualty;
- Directors and officers liability;
- Marine;
- Onshore energy;
- Professional Lines;
- Property;
- Personal accident;
- Travel;
- Reinsurance; and
- Terrorism.

As well as conventional London market business, the Syndicate underwrites a portfolio of SME ("small and medium sized enterprises") based retail business, which remains a focus for the future development of the Syndicate.

Strategic Report for the year ended 31 December 2015 (continued)

The Managing Agent has subsidiary undertakings incorporated in South Africa, Australia and the United Kingdom. Arch Underwriting at Lloyd's (Australia) Pty Ltd, Arch Underwriting Managers at Lloyd's (South Africa) Pty Ltd, Arch Underwriting Agency (Australia) Pty Ltd (previously known as Resource Underwriting Pacific Pty Ltd) and Axiom Underwriting Agency Limited ("Axiom") are licensed to trade as Lloyd's service companies with authority to bind risks on behalf of Syndicate 2012. The focus for 2015 has continued to be the development of infrastructure and portfolios of profitable business.

Review of the Business

Despite challenging market conditions the Syndicate recorded an underwriting profit of £1.5m (2014: profit £1.3m) and total comprehensive income of £2.6m (2014: £7.8m).

	2015		2014	
	£m	%	£m	%
Gross premiums written	153.6		150.6	
Earned premiums, net of reinsurance	108.9		98.1	
Claims incurred, net of reinsurance	(59.2)	54.4	(55.0)	56.1
Net operating expenses	(48.2)	44.3	(41.8)	42.6
Balance on technical account for general business	1.5	98.7	1.3	98.7
Investment return and foreign exchange	1.1		6.5	
Total comprehensive income	2.6		7.8	

Gross Written Premiums

Gross written premiums of £153.6m are 2% higher than 2014. During 2015 the Syndicate embarked upon a strategy of deemphasising a number of existing coverholder arrangements within the portfolio, with the longer term objective of building a broader base of in-house SME products. The underwriting conditions have been tough in 2015 and the continued focus for Syndicate 2012 is to write profitable business.

Incurred Claims

The net incurred loss ratio of 54.4% has seen an improvement of 1.7% on the 56.1% reported for the previous financial year. The improvement in performance reflects the absence of catastrophe loss activity during the current accident year, combined with a reduction in the frequency and severity of risk loss activity experienced in prior years.

Underwriting performance has been supplemented by £9.3m (2014:£11.1m) favourable development from prior accident years.

Operating Expenses

Net operating expenses of £48.2m (2014: £41.8m) are £6.4m higher than 2014. The principal driver for this increase has been caused by the employment of additional underwriting and support staff as well as increased costs for the development of the Solvency II project, an office move and the creation of an offshore support office in Manila. Administrative expenses continue to be in line with expectations.

Strategic Report for the year ended 31 December 2015 (continued)*Non Technical Account*

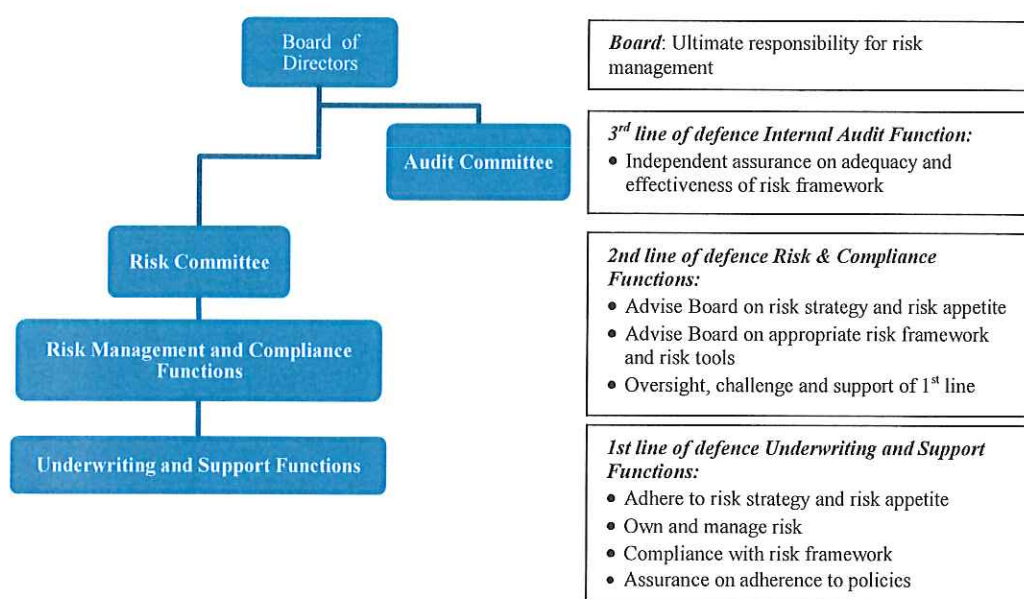
The Syndicate incurred non-technical profit of £1.1m (2014: profit £6.5m). The principal driver behind the results of the non-technical account was the performance of the investment portfolio.

The closing foreign exchange rates used in the financial statements of the Syndicate are as follows:

	2015	2014
US Dollar	1.4739	1.5593
Euro	1.3568	1.2886
Australian Dollar	2.0258	1.9054

Financial Risk Management

The Syndicate has a robust and integrated risk management framework that sets out the responsibilities and accountabilities for risk management for the whole business. The Board has ultimate responsibility for the Syndicate's risk management including setting and monitoring adherence to the risk strategy, risk appetite and risk framework. The Board has established a risk management model that separates the business's risk management responsibilities into three lines of defence as set out in the diagram below.

The Syndicate's risk management structure*Risk management strategy and risk appetite*

The Syndicate's risk management strategy operates in parallel with its business strategy. In the current low business return environment we have a low appetite for risk as we do not believe that it is being appropriately rewarded. To achieve its business strategy, the Syndicate seeks out risks with favourable risk return expectation subject to the boundary conditions stated in our risk appetite.

Strategic Report for the year ended 31 December 2015 (continued)*Risk management strategy and risk appetite (continued)*

The risks taken, both specifically and in the aggregate, will be guided by the following risk management principles:

- All risks assumed must have an associated expected return that is commensurate with the risk profile, and accretive to value when viewed over the long term; the Syndicate has no appetite for unprofitable risks;
- Risks are only assumed to the extent they are consistent with, and contribute to, the achievement of the Syndicate's business strategy and the execution of its business plan; risks not fulfilling these criteria are not considered;
- Risks are only assumed where the Syndicate has the demonstrable expertise to manage them through their lifecycle;
- Risk tolerances, and more granular risk limits, are set to underwrite and manage the aggregate exposure to risk in relation to the Syndicate's current resources and capacity, so that most adverse outcomes can be absorbed without jeopardising the business model;
- Processes exist for risk identification and assessment that are appropriate given the nature, scale and complexity of risks inherent in the business;
- Actual levels of risk versus risk tolerances are monitored on an on-going basis, and business plans are adapted to the extent required to stay within tolerances;
- The approach to risk management is communicated throughout the organisation and supported by explicit ownership of the risks and a clear allocation of responsibilities for their day to day management;
- There is adequate oversight and challenge to ensure that risks are being appropriately managed in line with the agreed risk appetite;
- Limit net Insurance Risk in single and aggregate extreme scenarios;
- Limit investment risk such that the overall portfolio will be high credit quality and that other investments do not risk a reasonably foreseeable that would materially impact the solvency of the Syndicate in times of crisis;
- Limit Asset Liability Management ("ALM") Risk by matching duration and currency for assets backing insurance liabilities and debt, and only take ALM risk against assets backing equity. Limit other market risks to be an overall conservative portfolio;
- Limit operational risk by maintaining appropriate proportional controls and limit reputational and regulatory risk by maintaining the highest compliance standards; and
- Preservation of capital, utilising reinsurance as appropriate.

The Syndicate has a set of risk appetite statements that are appropriate for its individual business model and strategy. Risk appetite statements setting out clear descriptions detailing appropriate levels of risk are in place for each material area of risk. Each of these statements is supported by a set of key risk indicators for detailed monitoring which are regularly reviewed and escalated where appropriate through the governance structure to the Board. Key risk indicators are set at levels that ensure sufficient remedial actions are put in place to ensure the Syndicate responds early to emerging threats. Risk appetites are reviewed, at a minimum, annually by the Board to ensure that the Syndicate retains full coverage over its risks.

The table below sets out our strategic risk objectives and shows, at a high level, examples of corresponding appetite statements:

<i>Strategic risk objective</i>	<i>Risk appetite statement</i>
Maintain capital adequacy	Maintain sufficient Capital to a defined target
Deliver stable earnings	Profitability over a defined period
Stable and efficient access to funding and liquidity	Cash outflows met under stress
Maintain stakeholder confidence	No appetite for material reputational, legal or regulatory risks

Strategic Report for the year ended 31 December 2015 (continued)*Risk management strategy and risk appetite (continued)*

The aim of the risk framework is to provide a robust, proportionate, proactive and forward-looking process for risk management across the Syndicate. A central component of this framework is the Syndicate's policies and minimum standards, which inform the business as to how it is required to conduct its activities and risk management processes to remain within risk appetite. The Syndicate employs a number of risk tools to manage and monitor risk. The output of our risk management activities is thoroughly tested and reported upon both internally and externally.

The policies and minimum standards cover all key risks to which the Syndicate is exposed. Each policy is supported by minimum standards which set out the minimum level of risk management and other corporate and personal behaviours.

The Syndicate incorporates the identification, assessment, management, control, reporting and mitigation of risk as part of our daily operations. We believe the strengths of our risk framework are:

- Strong culture and risk leadership underpinned by training of our people;
- Engagement with the business;
- Embedded risk management processes, linking risk and capital;
- Quantitative approach to risk analysis through use of a robust economic capital model;
- Quality risk assessment and management information; and
- Influencing decision-making and shaping behaviours, via the provision of accurate, timely and relevant risk advice and challenge.

Principal risks and uncertainties

The Syndicate writes products that are subject to a number of uncertainties and risks. It is a key role of the risk function to ensure that these risks have been identified, measured and considered throughout the business.

<i>Principal risks</i>	<i>Impact</i>	<i>Strategy, Management and mitigation</i>
Strategic risk The economic climate could put at risk our ability to meet our strategic objectives in the areas of distribution, pricing, claims, costs, and International diversification. We may fail to execute our ongoing strategic Global Services plan, and the expected benefits of that plan may not be achieved at the time or to the extent expected, or at all.	The value of the Syndicate decreases, resulting in a lack of AGL Group confidence.	The Syndicate's strategic ambitions include management of strategic risk in accordance with the AGL Group premium and profitability plans and targets. We do this through: <ul style="list-style-type: none"> • Constant monitoring and management of agreed strategic targets; • Monitoring of cost savings to ensure they remain on track; and • Monitoring and reporting of capital levels.
Underwriting and pricing risk We are subject to the risk that inappropriate business could be written (or not specifically excluded) and inappropriate prices charged. This includes catastrophe risk arising from losses due to unpredictable natural and man-made events affecting multiple covered risks.	Adverse loss experience impacting current year and future year business performance.	The Syndicate's insurance risk strategy is to maintain an acceptable level of underwriting exposure within preferred business lines, across a diverse range of distribution channels, products and geographies. We do this through: <ul style="list-style-type: none"> • Underwriting guidelines for all business transacted, restricting the types and classes of business that may be accepted; • Exception reports and underwriting monitoring tools; • Internal quality assurance programmes; • Pricing policies by product line; • Analysis of comprehensive data to refine pricing; • Purchase of reinsurance to limit exposures; and • Analysis of all property portfolios to determine expected maximum losses.

Strategic Report for the year ended 31 December 2015 (continued)*Principal risks and uncertainties (continued)*

Principal risks	Impact	Strategy, Management and mitigation
Reserving risk Due to the uncertain nature and timing of the risks to which we are exposed, we cannot precisely determine the amounts that we will ultimately pay to meet the liabilities covered by the insurance policies written.	Adverse development in prior year reserves resulting in significant deviations in earnings.	The Syndicate's Reserve risk strategy is to book prudent best estimate reserves being equal to or in excess of the independent actuaries best estimate. Technical reserves are estimated by: <ul style="list-style-type: none"> • A range of actuarial and statistical techniques, with projections of ultimate claims cost involving assumptions across a range of variables, including estimates of trends in claims frequency and average claim amounts based on facts and circumstances at a given point in time; • Making assumptions on other variable factors including; the legal, social, economic and regulatory environments. Other factors considered include business mix, consumer behaviour, market trends, underwriting assumptions, risk pricing models, inflation in medical care costs, future earnings inflation and other relevant forms of inflation, the performance and operation of reinsurance assets and future investment returns; • Stress and scenario testing; and • Management's best estimate of reserves being equal to or in excess of the independent actuaries best estimate.
Ceded Reinsurance risk The risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated.	Adverse impact on the financial results.	The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. <ul style="list-style-type: none"> • The Syndicate aims to establish appropriate retention levels and limits of protection that are consistent with keeping within the Board's risk tolerance and achieving the target rates of return; • Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow; • Comply with the guidance from the AGL Security Committees; and • The Syndicate also benefits from an internal quota share with Arch Reinsurance Ltd, the level of which is set at 15%.
Operational risk The risks of direct or indirect losses resulting from inadequate or failed internal processes, fraudulent claims or from systems and people, or from external events including changes in the competitor, regulatory or legislative environments.	Adverse events with potential financial, reputational, legal and customer impacts.	The Syndicate recognises that certain operational risks are unavoidable and 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. <ul style="list-style-type: none"> • We have enhanced many of our operational processes. This includes enhancing our Enterprise Risk Management ("ERM") framework to integrate risk, business and capital strategies; • We maintain a robust internal control environment; • We maintain a robust risk capture, management and reporting system; and • We recognise the value of our human resources and have appropriate HR policies to develop and retain our staff.

Strategic Report for the year ended 31 December 2015 (continued)*Principal risks and uncertainties (continued)*

Principal risks	Impact	Strategy, Management and mitigation
Investment risk Market risk – the risk of adverse financial impact due to changes in fair values of future cash flows of instruments held in the investment portfolio as a result of changes in interest rates, credit spread and foreign exchange rates. Credit risk – the risk of exposure if another party fails to perform its financial obligations, including failing to perform them in a timely manner. Liquidity risk – the risk of maintaining insufficient financial resources to meet business obligations as and when they fall due.	Adverse movements due to asset value reduction, mismatch in assets and liabilities, and default of third parties. Inability to meet cash flows under stress.	The Syndicate's Investment strategy is to protect the value of capital, focusing on assets that we consider are capable of producing a consistent and recurring flow of income over time. The Syndicate's liquidity management ensures that a minimum percentage of consolidated investments are held in liquid, short term money market securities, to ensure that there are sufficient liquid funds available to meet obligations to policyholders and other creditors as they fall due. Our investment portfolio is managed and controlled through: <ul style="list-style-type: none"> Investment strategy and guidelines proposed to the Board by the Investment Committee and monitored by the Investment Committee; Diverse holding of types of assets including geographies, sectors and credit ratings; and Stress testing and scenario analysis.
Counterparty Credit risk We partner with many suppliers and the failure of any of these to perform their financial obligations or perform them in a timely manner could result in a financial loss. The principal area of counterparty risk is our use of inter-company quota share reinsurance as a capital management tool.	Loss due to default of banks, reinsurers, brokers or other third parties.	The Syndicate's strategy is to avoid risk of large losses from counterparty failures through prudent counterparty selection and review of credit exposures. <ul style="list-style-type: none"> Credit limits are set for counterparties, particularly reinsurers; Requirement for minimum credit ratings for reinsurers; Broker credit exposures are monitored by the business; and There is a trust fund for the inter-company quota share.
Regulatory risk Changes in law and regulations are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with.	Customer impact, financial loss and regulatory censure. Regulatory sanction, legal action or revenue loss.	The Syndicate's Regulatory risk strategy is to comply with all laws and regulations. <ul style="list-style-type: none"> We have a constructive and open relationship with our regulators.
Conduct risk The risk of failing to deliver the appropriate treatment for our customers throughout all stages of the customer journey and that our people fail to behave with integrity.	Potential customer detriment, financial loss and regulatory censure and sanction.	The Syndicate's conduct risk strategy is to ensure good customer outcomes. <ul style="list-style-type: none"> Our organisational culture prioritises a consistent approach towards customers and the interests of customers are at the heart of how we operate; and We have developed a robust customer conduct risk management framework to minimise our exposure to conduct risk.
Group and reputational risk We are dependent on the strength of our Group, our reputation with customers and distributors in the sale of products and services. We have entered into various strategic partnerships that are important to the marketing, sale and distribution of our products.	Loss of Group value negatively impacts our ability to retain and write new business.	The Syndicate derives benefits from being part of the ACGL Group and use of the Lloyds Franchise. Group risk is primarily managed at the executive level, through building strong relationships with all parties. The Syndicate's reputational risk strategy is to protect our brand and reputation. We do this through: <ul style="list-style-type: none"> Our brand and reputation risk is regularly reviewed by various governance committees; and Regular reviewing seeking to offer a superior service to customers and to treat customers fairly in line with FCA principles.

Strategic Report for the year ended 31 December 2015 (continued)*Principal risks and uncertainties (continued)*

Principal risks	Impact	Strategy, Management and mitigation
Capital Risk The risk of failing to have sufficient capital required to support our underwriting activities.	Syndicate is unable to meet its financial liabilities.	<p>The Syndicate uses an internal capital model for setting economic capital.</p> <ul style="list-style-type: none"> • Recognised stochastic modelling techniques to measure risk exposure; and • Stress and scenario analysis is regularly performed and the results are documented and reconciled to the Board's risk appetite where necessary.

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, Arch Underwriting Agency Australia (formerly Resource Underwriting Pacific Pty Limited), Arch Underwriting Managers at Lloyd's (South Africa) Pty Limited (collectively, "integrated operations"), and Axiom Underwriting Agency Limited. A strong compliance culture underpins all aspects of its business, and it is embedded in the 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 Arch Underwriting at Lloyd's Ltd consists of ten directors, of which three Directors are group non-executive directors. The Chairman of the Board is an independent non-executive Director.

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.

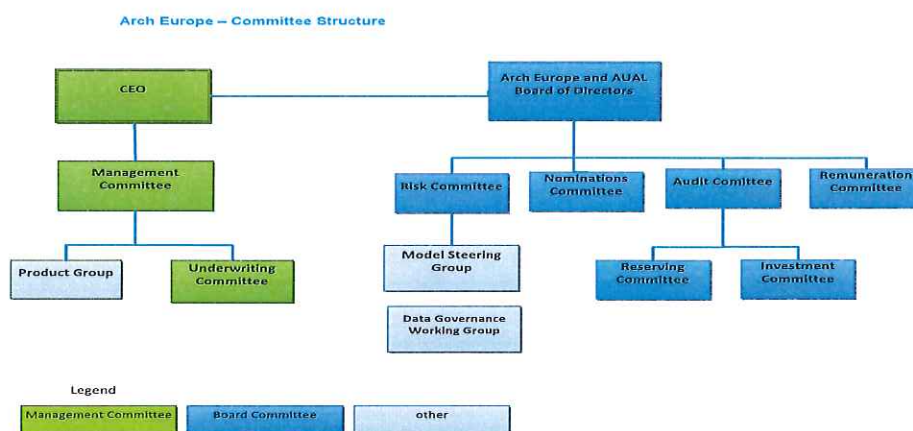
The activities and effectiveness of the Committees are reviewed and evaluated at the quarterly Board meetings by reports from the key officers and special assignments and responsibilities allocated by the Board if deemed necessary.

While retaining their responsibilities, the Board has established six Committees to support it with the oversight of the Company. In addition, there are 2 significant management Committees.

Strategic Report for the year ended 31 December 2015 (continued)**Board Corporate Governance (continued)***The board and committee structures (continued)*

Board Committee	Function of Committee
Audit Committee	Oversight of financial reporting, disclosure and the control environment.
Risk Committee	Oversight of risk management and control environment
Investment Committee	Oversight of implementation of investment strategy and adherence to guidelines by the Group Investment Function.
Reserve Committee	Review and management of the best estimate level of technical reserves to meet outstanding liabilities.
Remuneration Committee	Oversight of remuneration of senior management and material risk takers.
Nominations Committee	Oversight of nominations to the Board of Directors and its committees, and detailed review of succession planning.

Management Committee	Function of Committee
Management Committee	Management of the day to day operations ensuring that the Company's strategy and plan is met.
Underwriting Committee	Review of key underwriting decision making and management of systems and controls in the context of the business plan.

*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 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 Prudential Regulatory Authority ("PRA") and Lloyd's Franchise Board requirements, and in accordance with the guidance provided by European Insurance and Occupational Pensions Authority ("EIOPA") for Solvency II.

Strategic Report for the year ended 31 December 2015 *(continued)***Board Corporate Governance** *(continued)**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 comprehensive 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.

Internal Audit function

Arch Capital Group Limited 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 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.

Strategic Report for the year ended 31 December 2015 (continued)**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.

Arch Capital Group Limited 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.

Future Developments

The Syndicate anticipates the continuation of the challenging environment experienced in 2015 throughout 2016. Despite signs of recovery in the broader economy the outlook for the international wholesale insurance market remains uncertain. The continued inflow of capital into insurance markets is an ever present reminder of the need to remain disciplined in the execution of our underwriting philosophy and business plan.

The Syndicate remains committed to the development of its Lloyd's franchise and will scale premium volumes appropriate to our underwriting philosophy and risk appetite. Where opportunities arise to develop our business through geographical segmentation, distribution networks or the recruitment of high quality underwriting expertise, we will do so, providing opportunities are congruent with our philosophy and desired return on capital.

Approved by the Board and signed on behalf of the Board by



J. Weatherstone

Director

Arch Underwriting at Lloyd's Ltd

15 March 2016

Report of the Managing Agent for the year ended 31 December 2015

The Directors of the Managing Agent who held office during the year were as follows:

D. Brand	Resigned 10 February 2016
P. Camps	Appointed 22 July 2015
N. Denniston	
D. Hipkin	
M. Kier	
J. Kittinger	
P. Mailloux	
P. Martin	Appointed 23 December 2015
D. McElroy	
M. Oliver	Resigned 10 February 2016
B. Singh	
J. Weatherstone	

Financial Risk Management

The Syndicate is exposed to a wide variety of risks in the normal course of business. The Managing Agent has comprehensive arrangements in place for the management of risks that seek to mitigate the adverse effects risk can have on the Syndicate'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 1-2.

Business Review

Please refer to Strategic Report on pages 2-5.

Principal Risk and Uncertainties

Please refer to Strategic Report on pages 5-8.

Future Developments

Please refer to Strategic Report on page 11.

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations.

In accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Managing Agents are required to prepare Syndicate annual accounts for each financial year which give a true and fair view of the state of affairs of the Syndicate and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- Select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- Prepare the annual accounts on the basis that the Syndicate will continue to write future business, unless it is inappropriate to presume that the Syndicate will do so.

Report of the Managing Agent for the year ended 31 December 2015 (continued)

The Managing Agent confirms it has complied with the above requirements in preparing the annual accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors

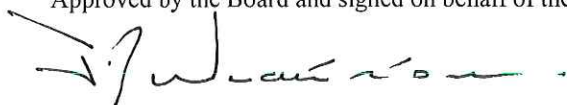
Each of the persons who is a Director of the Managing Agent at the date of this report confirms that:

- So far as each of them is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2015 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 of the Managing Agent in order to make himself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and they will be re-appointed by the Directors of the Managing Agent for the forthcoming year.

Approved by the Board and signed on behalf of the Board by



J. Weatherstone

Director

Arch Underwriting at Lloyd's Ltd

15 March 2016

Independent Auditors' Report to the Members of Syndicate 2012

Report on the syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2012's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2015, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss account for the year then ended;
- the Statement of Other Comprehensive Income;
- the Statement of Changes in Members' Balance;
- the Statement of Cash Flows; and
- the notes to the syndicate annual accounts, 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 syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has 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 matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Members of Syndicate 2012 (continued)**Responsibilities for the syndicate annual accounts and the audit****Our responsibilities and those of the Managing Agent**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12-13, the Managing Agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts 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 syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

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 to identify material inconsistencies with the audited syndicate annual accounts 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
15 March 2016

Profit and Loss Account: Technical Account – General Business

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000 Restated
Earned premium, net of reinsurance			
Gross premiums written	5	153,646	150,555
Outward reinsurance premiums		(40,226)	(37,944)
Net premiums written		113,420	112,611
Change in the gross provision for unearned premiums		(5,626)	(17,753)
Change in the provision for unearned premiums, reinsurers' share		1,098	3,289
Earned premiums, net of reinsurance		108,892	98,147
Total technical income		108,892	98,147
 Claims incurred, net of reinsurance			
Claims paid			
-gross amount		(90,601)	(57,747)
-reinsurers' share		29,387	11,678
		(61,214)	(46,069)
Change in the provision for claims			
-gross amount		17,365	(22,289)
-reinsurers' share		(15,331)	13,285
		2,034	(9,004)
Claims incurred, net of reinsurance		(59,180)	(55,073)
Net operating expenses	6	(48,257)	(41,751)
Total technical charges		(107,437)	(96,824)
Balance on the technical account for general business	5	1,455	1,323

*The notes on pages 21 to 49 form part of these financial statements.**Due to the adoption of new UK GAAP the 2014 results have been restated, see note 17.*

Profit and Loss Account: Non -Technical

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000 Restated
Balance on the general business technical account		1,455	1,323
Investment income	7	3,407	5,800
Gains on the realisation of investments		803	1,956
Unrealised gains on investments		-	3,878
Investment expenses and charges	7	(524)	(422)
Losses on the realisation of investments		(757)	(3,607)
Unrealised losses on investments		(2,711)	-
		218	7,605
Non Technical Profit and loss on exchange		893	(1,099)
Total profit for the year		2,566	7,829

All results are attributable to continuing operations.

There is no material difference between the profit for the financial year as stated above and the historical cost equivalents.

Statement of Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000 Restated
Profit for the financial year		2,566	7,829
Other comprehensive income		-	-
Total comprehensive income		2,566	7,829

*The notes on pages 21 to 49 form part of these financial statements.**Due to the adoption of new UK GAAP the 2014 results have been restated, see note 17.*

Balance Sheet

As at 31 December 2015

	Notes	2015 £000	2014 £000 Restated
ASSETS			
Financial Investments			
Shares and other variable yield securities	13	26,122	30,879
Debt securities and other fixed income securities	13	136,454	134,972
		<u>162,576</u>	<u>165,851</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	14	18,301	17,056
Claims outstanding		<u>51,293</u>	<u>60,966</u>
	14	<u>69,594</u>	<u>78,022</u>
Debtors			
Debtors arising out of direct insurance operations		104,102	98,642
Other debtors	10	<u>7,763</u>	<u>4,853</u>
		<u>111,865</u>	<u>103,495</u>
Other assets			
Cash at bank and in hand		17,841	26,059
Overseas deposits		35,712	37,250
Other assets	11	<u>4,150</u>	<u>2,544</u>
		<u>57,703</u>	<u>65,853</u>
Prepayments and accrued income			
Deferred acquisition costs		23,234	21,050
Other prepayments and accrued income		<u>1,022</u>	<u>881</u>
		<u>24,256</u>	<u>21,931</u>
TOTAL ASSETS		<u>425,994</u>	<u>435,152</u>
LIABILITIES			
Capital and reserves			
Member's balance		93,308	90,742
Technical provisions			
Provision for unearned premiums	14	81,799	76,402
Claims outstanding		<u>223,495</u>	<u>237,674</u>
	14	<u>305,294</u>	<u>314,076</u>
Creditors			
Creditors arising out of reinsurance operations		8,398	18,763
Other creditors		<u>13,220</u>	<u>6,835</u>
		<u>21,618</u>	<u>25,598</u>
Accruals and deferred income	12	5,774	4,736
TOTAL LIABILITIES		<u>425,994</u>	<u>435,152</u>

The notes on pages 21 to 49 form part of these financial statements

Due to the adoption of new UK GAAP the 2014 results have been restated, see note 17.

The financial statements on pages 16 to 20 were approved by the Board of Arch Underwriting at Lloyd's Ltd on 15 March 2016 and were signed on their behalf by:


J. Kittinger

Finance Director

Arch Underwriting at Lloyd's Ltd

15 March 2016

Statement of Changes in Members' Balance

As at 31 December 2015

	2015 £000	2014 £000 Restated
Brought forward at 1 January	90,742	82,913
Profit for the financial year	2,566	7,829
Cash call	-	4,951
Members' Funds in Syndicate	-	(4,951)
Members' balances carried forward at 31 December	<u>93,308</u>	<u>90,742</u>

*The notes on pages 21 to 49 are an integral part of these financial statements.**Due to the adoption of new UK GAAP the 2014 results have been restated, see note 17.*

Statement of Cash Flows

For the year ended 31 December 2015

Reconciliation of operating profit/(loss) to net cash inflow from operating activities	Notes	2015 £000	2014 £000 Restated
Operating profit on ordinary activities		2,566	7,829
(Decrease)/ increase in gross technical provisions	14	(8,782)	32,644
Increase/ decrease in reinsurers' share of gross technical provisions	14	8,428	(11,742)
(Increase) in debtors		(10,762)	(12,637)
(Decrease) in creditors		(2,942)	(1,043)
Movement in other assets and liabilities		-	2,372
Decrease/ (Increase) in unrealised investment return		2,711	(3,878)
Increase/ (Decrease) in market value and currency		5,020	(5,650)
Net cash (outflow)/ inflow from operating activities		(3,761)	7,895
Purchase of equity debt instruments		(214,390)	(557,548)
Sale of equity and debt instruments		209,933	551,659
Net cash inflow from investing activities		(4,457)	(5,889)
Net (Decrease)/ increase in cash and cash equivalents		(8,218)	2,006
Cash at bank and in hand at beginning of year		26,059	24,053
Cash at bank and in hand at end of year		17,841	26,059

*The notes on pages 21 to 49 form part of these financial statements.**Due to the adoption of new UK GAAP the 2014 results have been restated, see note 17.*

Notes to the Financial Statements

1 General Information

The Syndicate transacts in the underwriting of general insurance business at Lloyd's with underwriting capacity being provided by Arch Syndicate Investments Ltd. The address of the managing agents registered office is 5th Floor, Plantation Place South, 60 Great Tower Street, London, EC3R 5AZ.

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Syndicate have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The Group financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance groups.

(b) Basis of measurement

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(c) Going Concern

The directors have an expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

(d) Functional and presentation currency

These financial statements are presented in pounds Sterling (pounds) which is the functional currency of the Syndicate, and are rounded to the nearest thousand unless otherwise stated.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with UK GAAP 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.

These disclosures supplement the commentary on insurance and financial risk management in the Directors' Report.

Key sources of estimation uncertainty

The areas of the Syndicate's business containing key sources of estimation uncertainty include the measurement of insurance and reinsurance assets and liabilities at the balance sheet date. The most significant of these involves the valuation of outstanding claims and, in particular, the provision for claims incurred but not reported.

The processes used to determine the assumptions on which the measurement of insurance contract provisions are based, actual assumptions used, the effects of changes in assumptions and an analysis of sensitivity to changes in assumptions are described below.

Notes to the Financial Statements (continued)**2 Basis of Preparation (continued)****(e) Use of estimates and judgements (continued)***Process used to determine the assumptions for measuring insurance contracts*

Loss Reserves for the Syndicate are comprised of (1) estimated amounts for claims reported ("case reserves") and (2) incurred but not reported ("IBNR") losses. Claims personnel determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. The estimate reflects the judgement of claims personnel based on general corporate reserving practices, the experience and knowledge of such personnel regarding the nature and value of the specific type of claim and, where appropriate, advice of counsel. The Syndicate also contracts with a number of outside third party administrators in the claims process who, in certain cases, have limited authority to establish case reserves. The work of such administrators is reviewed and monitored by our claims personnel.

Loss Reserves are also established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the reported or case reserves may be made as additional information regarding the claims is reported or payments are made. IBNR reserves are established to provide for incurred claims which have not yet been reported to an insurer or reinsurer at the balance sheet date as well as to adjust for any projected variance in case reserving. IBNR reserves are derived by subtracting paid losses and loss adjustment expenses and case reserves from estimates of ultimate losses and loss adjustment expenses. Actuaries estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgement by management and, as of any given date, is inherently uncertain.

Ultimate losses and loss adjustment expenses are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. The Syndicate uses several methods for determining its reserves. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

Expected loss methods – these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organisations, such as statistical bureaus and consulting firms, where appropriate. These ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available, and is commonly applied when limited loss experience exists for a company.

Bornhuetter-Ferguson ("B-F") paid and incurred loss methods – these methods utilise actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.

Additional analyses – other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events. These include vendor catastrophe models, which are typically used in the estimation of Loss Reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer, and analyses of specific industry events, such as large lawsuits or claims.

Notes to the Financial Statements *(continued)*

3 Management of Risk

The Syndicate's core business is to take risk and our mission is to generate a positive contribution to the growth in the Tangible Book Value (TBV) of our ultimate parent company (ACGL). We do this through our objective of maximising return on equity within a defined 'risk appetite'. It is therefore essential that we understand the significant exposures we face to manage the business well. It is also important that our knowledge of those risks underpins every important decision we make across the Syndicate. The risks from our core business of insurance represent our most significant exposures.

A – Strategic Risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where events supersede the Syndicate's strategic plan this is escalated at the earliest opportunity through the Syndicate's monitoring tools and governance structure.

B - Insurance Risk

(i) Underwriting Risk

The process of selecting and pricing insurance risks is addressed through a framework of policies, procedures and internal controls. Risk selection is our business and our procedures are designed to ensure that the evaluation of risk is transparent and logical. We have a clearly defined appetite for underwriting risk, which dictates our business plan.

To ensure that our risk appetite is not exceeded we maintain disciplined underwriting, regularly monitor our exposures to, and aggregations of risk in particular places closely and buy reinsurance to limit our losses from disasters. We adapt our business plan, target products and reinsurance programme to ensure our book of business is well diversified. The Syndicate's long-term underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit volatility. This is achieved by accepting a spread of business over time, segmented between different classes of business and geography.

The quality of our underwriting models and our capability to accurately measure our aggregate exposure are key to managing this risk. Our underwriters are given incentives to make sound decisions that are aligned with the Syndicate's overall strategic objectives and risk appetite. Clear limits are also placed on their authority. We regularly review our policy wordings in the light of legal developments to ensure the Syndicate's exposure is restricted, as far as possible, to those risks identified in the policy at the time it was issued.

The Syndicate has large aggregate exposures to natural and man-made catastrophic events. These risks are inherently uncertain as it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss which any given occurrence will generate. The Syndicate regularly monitors its exposure to catastrophic events, including earthquake, wind and terrorism, using the risk management system, ("RMS") (Property, Terrorism and Onshore Energy), both locally and at Arch Group level. Additionally, the Syndicate regularly monitors its exposure to man-made realistic disaster scenarios.

The Syndicate seeks to limit its loss exposure by purchasing reinsurance to limit exposure to certain extreme events. The Syndicate also seeks to limit its loss exposure by geographic diversification.

Notes to the Financial Statements (continued)**3 Management of Risk (continued)****B - Insurance Risk (continued)****(i) Underwriting Risk (continued)**

The Syndicate's largest exposures to natural catastrophe 1 in 250 year stress events, gross and net basis are (GBP £m):

Territory	Peril	Gross	Net
South America	Earthquake	16.4	9.8
Caribbean	Windstorm	14.7	9.6
Australia	Earthquake	18.5	8.4
Mexico	Windstorm	9.5	6.9
Australia	Windstorm	9.4	6.4
Caribbean	Earthquake	6.0	4.3
United States	Earthquake	18.7	3.9
Japan	Earthquake	7.8	3.3
New Zealand	Earthquake	3.9	3.0
United States	Windstorm	5.6	3.0
United Kingdom	Windstorm	1.2	1.0

The Syndicate's largest exposures to a terrorism events based on 100% accumulated total insured value on our stand alone terrorism class of business within a circle of 200 metre radius, gross and net pre internal quota share reinsurance and net post internal quota share reinsurance are (GBP £m):

		100% Accumulations (circle - 200m radius)	
Syndicate Terrorism accumulations - TIV		Gross	Net
Top 5 USA/CA	Hells Kitchen, NY 10281, US	46.3	5.5
	New York, NY 10007, US	45.8	5.5
	Toronto, ON M5K1A1, CA	37.9	4.8
	New York, NY 10019, US	35.8	4.6
	Seattle, WA 98101, US	35.4	4.6
Top 5 - Rest Of World	London, 10 W1S 3, GB	36.5	4.7
	Geneve, 07 1227, CH	27.0	3.9
	Hong Kong Island, 01, HK	26.3	3.8
	London, 10 W1J 7, GB	26.3	3.8
	Nizhneye Koyrovo, RU	24.0	3.6

In common with all insurers, the Syndicate is exposed to price volatility. However, the Syndicate is firm in its resolve to reject business that is unlikely to generate underwriting profit. Additionally, the Syndicate alters its appetite for the lines of business and the layers it writes within them in response to market conditions.

The Syndicate writes a significant amount of premium income through coverholder arrangements to whom binding authority is given to accept risks on behalf of the Syndicate. This delegation is strictly controlled through tight underwriting guidelines and limits, and extensive monitoring, review and audits.

Notes to the Financial Statements *(continued)***3 Management of Risk** *(continued)***B - Insurance Risk** *(continued)***(ii) Reserving and Claims Risk**

The Syndicate's claims teams are focused upon delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the Syndicate's broader interests. Our objective is to set prompt and accurate case reserves for all known claims liabilities, including provisions for expenses.

The Syndicate operates to a prudent best estimate reserving philosophy. Reserve estimates are derived by the internal actuary after consultation with individual underwriters, claims team, actuarial analysis of the loss reserve development and comparison with market benchmarks. The objective is to produce reliable and appropriate estimates that are consistent over time and across classes of business. The internal actuary's loss assessments are peer reviewed by ACGL actuaries, and the reserves also are subject to review by external actuaries. Generally, reserves are established without regard to whether the claim may be subsequently contested and reserves are not discounted for the time value of money.

(iii) Ceded Reinsurance Risk

Reinsurance risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, resulting in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In 2015, the Syndicate bought a combination of proportional and non-proportional reinsurance treaties and facultative reinsurance to reduce the maximum net exposure. The Syndicate aims to establish appropriate retention levels and limits of protection that are consistent with keeping within the board's risk tolerance and achieving the target rates of return. The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions.

The Syndicate's reinsurance philosophy is to:

- Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow;
- Reduce volatility;
- Achieve a broad spread of well rated security;
- Purchase reinsurance to limit exposure from maximum line sizes and accumulations;
- Utilise RMS as the standard model throughout ACGL;
- Comply with the guidance from the ACGL Security Committees;
- Apply common standards throughout ACGL;
- Consider hard and soft factors such as ability to pay and willingness to pay;
- Set cession limits by reinsurer and by lines of business; and
- Strive for 100% of security rated A- or higher at the time of purchase.

The Syndicate also benefits from an internal quota share with Arch Reinsurance Ltd, the level of which is set at 15%.

Notes to the Financial Statements (continued)**3 Management of Risk (continued)****C – Operational Risk**

Management continually review 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; and 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; and failure of corporate governance.
Systems (including Cyber Attack)	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; and 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; and 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 the Syndicate's activities.

The operational risk profile is reviewed by the Risk Committee and the controls to mitigate the risks are included in the Risk Register. Risk owners are required to report to the Risk Committee and review the relevant risks and are responsible for identifying new, emerging or changing risks and any subsequent control changes required to realign the risks with the risk appetite. When measuring operational risk both quantitative factors, in the form of the probable loss, and qualitative factors, in the form of an assessment of the likely reputational impact or the ability of the Syndicate to deliver its service, are taken into account and contribute to determining the risk tolerance.

In respect of one of our largest operational risk, failure of an outsourced service provider, we have formal Service Level Agreements and monitoring processes in place for all key outsourced providers including IT service providers and coverholders. We also have a formal disaster recovery plan in place that deals with both workspace recovery and the retrieval of communications, IT systems and data if a major problem occurred. These procedures would enable us to move the affected operations to alternative facilities very quickly. The disaster recovery plan is tested regularly.

Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including underwriting, operations and strategy. We make a significant effort to try to identify material emerging threats to the Syndicate. It is a core responsibility of each of our committees and we believe we take all reasonable steps to minimise the likelihood and impact of emerging risks and to prepare for them in case they occur.

Notes to the Financial Statements *(continued)***3 Management of Risk** *(continued)***D - Market Risks**

Our investment results are subject to a variety of risks, including changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in general economic conditions and overall market conditions. Valuations of investments are also exposed to potential loss from various market risks, including changes in equity prices, interest rates, and exchange rates.

The Syndicate's primary investment objective is to preserve capital and to ensure adequate liquidity for settling policyholder claims, while also providing a return that meets or exceeds the total return of the assigned benchmark for each portfolio. Technical funds, those funds held for reserves, are invested primarily in high quality bonds and cash. The high quality and short duration of these funds allows the Syndicate to meet its aim of paying valid claims quickly. These funds, as far as possible, are maintained in the currency of the original premiums for which they are set aside to reduce foreign exchange risk.

Market risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which we invest. Our third-party investment managers are issued guidelines as to the type and nature of bonds in which to invest.

The value of the Syndicate's fixed income securities are inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the fixed income investments would tend to rise and, vice versa, assuming that credit spreads remain constant.

The sensitivity of the price of a bond is also closely correlated to its duration. The longer the duration of a security, the greater its price volatility.

Interest Rate shift in basis Points

Interest rate risk	2015	2014
	£000	£000
Impact of 50 basis point increase on result	(2,017)	(2,010)
Impact of 50 basis point decrease on result	2,060	2,055
Impact of 50 basis point increase on net assets	(2,017)	(2,010)
Impact of 50 basis point decrease on net assets	2,060	2,055

The Syndicate is exposed to currency risk in respect of liabilities under insurance policies and reinsurance recoverable debtors under reinsurance policies, denominated in currencies other than Sterling. The most significant currencies to which the Syndicate is exposed are the U.S. Dollar, the Australian Dollar and the Euro.

The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Assets and liabilities are appropriately matched and as such, movements in the exchange rates between Sterling, U.S. Dollar, Australian Dollar and the Euro have minimal impact on the net result of the Syndicate.

Notes to the Financial Statements (continued)**3 Management of Risk (continued)****E - Credit Risk**

Exposure to credit risk arises from financial transactions with counterparties including debtors, borrowers, brokers, policyholders, reinsurers and guarantors. The Syndicate uses the credit ratings assigned to particular counterparties to measure credit risk.

To lessen the risk of the Syndicate's exposure to any particular reinsurer, exposure limits are approved. On behalf of the Syndicate, ACGL has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the ACGL Reinsurance Steering Committee, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow paying reinsurers are examined more frequently.

The Syndicate has established guidelines for its investment managers regarding the type, duration and quality of investments within the Syndicate guidelines. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

Credit distribution of invested assets and cash

	2015	2015	2014	2014
Standard & Poor's	£m	%	£m	%
AAA	98.6	45.6	31.5	13.7
AA	21.6	10.0	93.7	40.9
A	16.1	7.5	9.8	4.3
BBB	-	-	-	-
BB or below	0.7	0.3	-	-
Overseas deposits	35.7	16.5	37.2	16.2
Cash at bank and in hand	17.8	8.2	26.0	11.4
Cash equivalents	25.6	11.9	31.0	13.5
Total	216.1	100.0	229.2	100.0

Credit distribution of reinsurance receivables

	2015	2015	2014	2014
A. M. Best	£m	%	£m	%
A++	0.4	0.7	-	-
A+	37.2	72.7	45.9	75.3
A	12.9	25.2	15.0	24.6
A-	0.6	1.2	-	-
NR	0.1	0.2	0.1	0.1
Total	51.2	100.0	61.0	100.0

All recoverable amounts are gross of any internally modelled impairment provision.

Notes to the Financial Statements (continued)**3 Management of Risk (continued)****E - Credit Risk (continued)****Credit Risk – Aging and Impairment***Financial assets that are past due but not impaired*

	Neither due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Total
		Up to three months	Three to six months	Six months to one year	Greater than one year		
	£000	£000	£000	£000	£000	£000	£000
2015							
Shares and other variable yield securities and unit trusts	26,122	-	-	-	-	-	26,122
Debt securities	136,454	-	-	-	-	-	136,454
Overseas deposits as investments	35,712	-	-	-	-	-	35,712
Reinsurer' share of claims outstanding	51,293	-	-	-	-	-	51,293
Reinsurance debtors	485	-	-	-	-	-	485
Insurance debtors	85,105	9,757	7,353	1,261	627	-	104,103
Other debtors	-	7,277	-	-	-	-	7,277
Cash at bank and in hand	17,841	-	-	-	-	-	17,841
Total credit risk	353,012	17,034	7,353	1,261	627	-	379,287

	Neither due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Total
		Up to three months	Three to six months	Six months to one year	Greater than one year		
	£000	£000	£000	£000	£000	£000	£000
2014							
Shares and other variable yield securities and unit trusts	30,879	-	-	-	-	-	30,879
Debt securities	134,972	-	-	-	-	-	134,972
Overseas deposits as investments	37,250	-	-	-	-	-	37,250
Reinsurer' share of claims outstanding	60,966	-	-	-	-	-	60,966
Reinsurance debtors	-	-	-	-	-	-	-
Insurance debtors	87,950	5,820	3,362	831	678	-	98,641
Other debtors	-	4,853	-	-	-	-	4,853
Cash at bank and in hand	26,059	-	-	-	-	-	26,059
Total credit risk	378,076	10,673	3,362	831	678	-	393,620

Notes to the Financial Statements (continued)**3 Management of Risk (continued)****F - Liquidity Risk**

The Syndicate's whole account quota share reinsurance contract is denominated in the underlying settlement currencies of the Syndicate: Euros ("EUR"), U.S. Dollars ("USD"), Australian Dollars ("AUD") and Great British Pounds ("GBP"). The reinsured liabilities are matched by the currency assets held in a reinsurance trust fund and this provides currency risk mitigation. The reinsurance trust fund is also available to cash calls by the Syndicate and thereby supports its liquidity risk exposure.

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due and maintain a liquidity position. The Syndicate's approach is to manage its cash flows so that it can reasonably survive a significant loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet expected cash flow requirements.

These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. Regular cash flow monitoring ensures that maturing deposits are sufficient to meet cash calls. Additionally, intra-group reinsurance obligations are secured by funds deposited into a trust account to fund an amount equal to at least 100% of the obligations to the Syndicate.

We run stress tests to estimate the impact of a major catastrophe on our cash position in order to identify any potential issues. We also run scenario analyses that consider the impact on our liquidity should a number of adverse events occur simultaneously, such as an economic downturn and declining investment returns combined with unusually high insurance losses.

Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be realised before maturity or at short notice. Hence a high proportion of our investments are in liquid assets, which reduces our risk of making losses because we may have to sell assets quickly.

The Syndicate has maintained and continues to maintain excellent liquidity. Historic large losses did not result in liquidity issues for the Syndicate.

Asset Liability Matching

The Syndicate reviews currency asset and liability positions on a regular basis. The currency net assets / (liabilities) positions denote the Syndicate's foreign exchange risk as a result of the translation of subordinated currency positions that are different to the reporting currency of the Syndicate. The main subordinate trading currencies are EUR, USD and AUD. The following table describes the net assets / (liabilities) positions at the year end.

	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	JPY £000	OTH £000	Total £000
2015								
Financial investments	116,406	32,435	7,272	6,463	-	-	-	162,576
Reinsurers' share of technical provisions	14,869	27,700	11,272	1,431	11,502	110	2,709	69,593
Insurance and reinsurance receivables	18,985	36,113	27,361	1,278	9,308	1,101	10,442	104,588
Overseas Deposits	22	562	-	1,174	30,739	-	3,216	35,712
Cash at bank and in hand	1,677	2,989	6,953	-	4,327	338	1,557	17,841
Other assets	12,082	14,569	4,227	-	4,805	-	-	35,683
Total assets	164,041	114,368	57,085	10,346	60,681	1,549	17,924	425,994
Technical provisions	(56,804)	(115,000)	(54,281)	(5,471)	(62,491)	(423)	(10,824)	(305,294)
Insurance and reinsurance payables	(3,207)	(3,148)	(936)	(103)	(78)	(88)	(838)	(8,398)
Other creditors	(12,608)	(4,631)	(591)	-	(1,164)	-	-	(18,994)
Total liabilities	(72,619)	(122,779)	(55,808)	(5,574)	(63,733)	(511)	(11,662)	(332,686)

Notes to the Financial Statements (continued)**3 Management of Risk (continued)****F - Liquidity Risk (continued)**

	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	JPY £000	OTH £000	Total £000
2014								
Financial investments	111,686	45,495	4,055	4,615	-	-	-	165,851
Reinsurers' share of technical provisions	16,232	33,901	8,654	691	12,160	2,531	3,853	78,022
Insurance and reinsurance receivables	19,169	42,704	23,339	616	2,067	942	9,804	98,641
Overseas Deposits	605	302	-	476	33,547	-	2,320	37,250
Cash at bank and in hand	2,890	1,184	5,770	-	13,780	372	2,063	26,059
Other assets	4,904	17,505	3,022	-	3,898	-	-	29,329
Total assets	155,486	141,091	44,840	6,398	65,452	3,845	18,040	435,152
Technical provisions	(53,755)	(120,930)	(46,583)	(2,291)	(68,839)	(8,382)	(13,296)	(314,076)
Insurance and reinsurance payables	(12,992)	476	(3,558)	(118)	(516)	(180)	(1,875)	(18,763)
Other creditors	2,621	(13,556)	(222)	-	(414)	-	-	(11,571)
Total liabilities	(64,126)	(134,010)	(50,363)	(2,409)	(69,769)	(8,562)	(15,171)	(344,410)

The Syndicate manages the impact of currency fluctuations by attempting to ensure currency matching is maintained where feasible. In addition, as part of this process, currency trades may be made to maintain the desired currency net asset allocations. The Syndicate has established foreign exchange facilities with a number of banks to cater for these transactions.

Exchange Sensitivity Analysis

The Syndicate reviews currency asset and liability positions on a regular basis. The currency net assets / (liabilities) positions denote the Syndicate's foreign exchange risk as a result of the translation of subordinated currency positions that are different to the reporting currency of the Syndicate. The main subordinate trading currencies are EUR, USD and AUD. The following table describes the sensitivity to currency change.

	EUR Net Assets in GBP			USD Net Assets in GBP			AUD Net Assets in GBP		
	£000	+10% increase	-10% decrease	£000	+10% increase	-10% decrease	£000	+10% increase	-10% decrease
Net assets/ (liabilities) at 31 December 2015	10,088	1,009	-1,009	2,626	263	-263	9,729	973	-973
Net assets/ (liabilities) at 31 December 2014	-6,145	-615	615	3,953	395	-395	3,934	393	-393

The increase shown in the table above reflects the weakening of the currency shown against sterling and a decrease reflects the strengthening of the currency against Sterling.

Notes to the Financial Statements *(continued)***3 Management of Risk** *(continued)***G – Counterparty Credit Risk**

With regard to premium debtor risk, the Syndicate ensures that all brokers are subject to a due diligence protocol and that they have terms of business agreements in place. An approval system also exists for new brokers, and broker performance is regularly reviewed. System exception reports highlight trading with non-approved brokers, and the Syndicate's credit control team regularly monitors the ageing and collectability of debtor balances. Large and aged items are prioritised.

The largest single Reinsurer counterparty is Arch Reinsurance Ltd. in respect of the internal quota share reinsurance. The internal reinsured claims outstanding in the table above are included within the balance that has a credit rating of 'A+'. The balances due from Arch Reinsurance Ltd have further security in the form of a segregated trust to secure the liabilities. The value of the trust fund is required to be all times greater than the reinsured liabilities and the assets in trust are required to be invested to meet PRA admissibility rules.

H – Regulatory Risk

This risk is affected by changes in law and regulations which are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with. We have a constructive and open relationship with our regulators.

I – Conduct Risk

In 2015, we reviewed the way we manage conduct risk. Conduct risk describes the Syndicate's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. The Syndicate's approach starts with our strong culture which means we consider and understand the needs of our customers and form an important cultural base to getting this right. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite. We are able to extract conduct related controls from the risk register to provide the board with assurance that the expected behaviours towards customers are being demonstrated.

J – Reputational Risk

Reputation risk is the risk of negative publicity as a result of the Syndicate's contractual arrangements, customers, products, services and other activities. Key sources of reputation risk include operation of a Lloyd's franchise and reliance upon the Arch brand in the United States, Europe, Australia and South Africa. The Syndicate's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

K – Capital Risk

The insurance industry has undergone a period of unprecedented regulatory change during 2015, the last year before the Solvency II regime went live. The Syndicate uses an Internal Capital Model for setting economic capital along with a number of other uses. The Syndicate follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the Board's risk appetite where necessary.

Notes to the Financial Statements *(continued)*

3 Management of Risk *(continued)*

K – Capital Risk *(continued)*

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the PRA under the Financial Services and Markets Act 2000 and in accordance with the Solvency II Directive.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2012 is not disclosed in these annual accounts.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement ("SCR") for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, to derive the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives.

Provision of capital by members

Each member may provide capital to meet its ECA through assets held in trust by Lloyd's specifically for that member (funds at Lloyd's "FAL"), assets held within and managed within a syndicate (funds in syndicate "FIS") or as members' balances.

Capital Management

The Board of AUAL has in place policies and procedures for managing compliance with regulatory capital requirements and its own capital management objective. This objective is to balance risk and return while maintaining economic and regulatory capital in accordance with risk appetite. The Board of AUAL has no appetite for the Syndicate failing to maintain sufficient capital. To this end, AUAL recalculates its ECA routinely at different points during the annual business cycle, and may also recalculate the ECA on an ad-hoc basis if the risk management framework identifies significant changes to the risk profile, or as required by the Board. In order to ensure that regulatory capital is maintained above the ECA, a minimum level of free assets above the ECA is set by the Board periodically.

Notes to the Financial Statements (continued)**4 Accounting Policies***(a) Insurance Contracts**(i) Classification*

Contracts under which the Syndicate accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts.

*(ii) Recognition and measurement**Revenue*

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums incepted but not yet received or notified to the Syndicate, less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries and exclude Insurance Premium Tax.

The earned proportion of premiums is recognised as revenue. Premiums are earned from the date of inception of risk on a time apportionment basis. In the opinion of the directors the resulting earned proportion is not materially different from one based on the pattern of incidence of risk.

(ii) Recognition and measurement

Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related direct insurance or inwards reinsurance business. Reinsurance contracts that operate on a 'losses occurring' basis are accounted for in full over the year of coverage whilst 'risk attaching' policies are expensed using the same earnings year as the underlying premiums on a daily pro rata basis.

Reinsurance commission income

Commissions on reinsurance premiums are earned in a manner consistent with the recognition of the costs of the reinsurance, generally on a pro-rata basis over the terms of the policies reinsured.

Unearned premium provision

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date calculated on a time apportionment basis. In the opinion of the Directors the resulting provision is not materially different from one based on the pattern of incidence of risk.

Claim

Claims incurred comprise notified claims and related expenses in the year together with changes in the estimates of what we ultimately expect to pay on claims based on facts and circumstances known at the balance sheet date. The insurance reserves include the Syndicate's total cost of claims incurred but not reported ('IBNR').

Claims outstanding comprise provisions for the Syndicate's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual reported claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made and are disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

The Syndicate's reserving policy is to use recognised actuarial techniques appropriate to the loss experience that exists. Where there is limited loss experience our choice of method has primarily been the expected loss method.

Notes to the Financial Statements *(continued)***4 Accounting Policies** *(continued)**(a) Insurance Contracts (continued)**(ii) Recognition and measurement (continued)**Claim (continued)*

We select the initial expected loss and loss adjustment expense ratios based on information derived from our underwriters and actuaries during the initial pricing of the business, supplemented by industry data where appropriate. These ratios consider, amongst other things, rate changes and changes in terms and conditions that have been observed in the market. For a given underwriting year, additional weight is given to the historic paid and incurred loss development methods in the reserving process, assuming that case reserving practices are consistently applied over time. This reserving process makes some key assumptions that historical paid and reported development patterns are stable.

For a given underwriting year, additional weight is given to the historic paid and incurred loss development methods in the reserving process, assuming that case reserving practices are consistently applied over time. This reserving process makes some key assumptions that historical paid and reported development patterns are stable.

For catastrophe-exposed business, our reserving process also includes the use of catastrophe models for known events, a heavy reliance on analysis of individual catastrophic events and management judgement. The development of property losses can be unstable, especially for policies characterised by high severity, low frequency losses.

Reinsurance recoveries in respect of estimated claims incurred but not reported are booked in line with the underlying programme, adjusted to reflect changes in the nature and extent of the Syndicate's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies. Reinsurance liabilities are primarily premiums payable for reinsurance.

Unexpired risk provision

Provision is made for unexpired risks arising from contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

(iii) Reinsurance assets

The Syndicate cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Syndicate from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the comprehensive income for the period.

Notes to the Financial Statements *(continued)***4 Accounting Policies** *(continued)**(a) Insurance Contracts (continued)**(iv) Deferred acquisition costs*

Acquisition costs which represent commission and other related expenses are deferred over the year in which the related premiums are earned. To the extent that acquisition costs are deferred and considered irrecoverable against the related unearned premiums, they are written off to net operating expenses as incurred.

The deferred acquisition cost represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date. The acquisition costs are expensed from the date of inception of risk on a time apportionment basis.

*(b) Financial Instruments**(i) Non-derivative financial assets*

The Syndicate initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

The Syndicate derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Syndicate is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Syndicate has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets comprise investments in equity and debt securities, trade receivables and cash and cash equivalents.

(ii) Fair value through profit and loss financial assets

The Syndicate's investments in debt securities are classified as fair value through profit and loss financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in the profit and loss account.

The fair value is determined based on the fair value hierarchy, which defined by the standard are as follows:

- Level 1: quoted prices (unadjusted) in active markets;
- Level 2: Recent transactions in an identical asset if there is unavailability of quoted prices; and
- Level 3: Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Syndicate's cash management are included as a component of cash and cash equivalents for the purposes the statement of cash flows.

Notes to the Financial Statements *(continued)***4 Accounting Policies** *(continued)**(b) Financial Instruments (continued)**(iv) Non-derivative financial liabilities*

Financial liabilities are recognised initially at cost on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument and subsequently measured at amortised cost.

The Syndicate derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Syndicate has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. The Syndicate has the following non-derivative financial liabilities: bank overdrafts, insurance and other payables and other liabilities.

(c) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax.

(d) Functional Currency

The Syndicate's functional and reporting currency is GBP ("Great British Pound").

All transactions in underlying non-functional currency are recorded in and translated into a functional currency at average rates. Monetary assets and liabilities are translated to the functional currency using the closing rate. Foreign exchange differences arising are reported through the Profit and Loss Account. Previously reported, deferred acquisition costs ("DAC") and unearned premiums ("UPR") were classified as non-monetary and therefore were valued at transaction rates. Under the new UK GAAP, FRS 103 Insurance Contracts, these are considered monetary items.

The results and financial positions of the non settlement currencies are retranslated into the reporting currency as follows:

- assets and liabilities are retranslated at the closing rate at the balance sheet date and;
- income and expenses are retranslated at the average rate of exchange during the year; and
- all resulting exchange differences are recognised through the Non-Technical account.

Notes to the Financial Statements (continued)**5 Segmental Information**

Segmental information required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 is as follows:

	Gross Premium Written 2015 £000	Gross Premium Earned 2015 £000	Gross Claims Incurred 2015 £000	Gross Operating Expenses 2015 £000	Reinsurance Balance 2015 £000	Total 2015 £000
Direct						
Accident & health	23,780	21,528	(10,114)	(9,920)	(1,417)	77
Marine	36,102	36,154	(26,155)	(10,537)	(1,352)	(1,890)
Fire & other damage to property	30,064	30,960	(5,937)	(12,390)	(10,098)	2,535
Third party liability	62,867	58,682	(30,703)	(24,374)	(2,874)	731
Direct Total	152,813	147,324	(72,909)	(57,221)	(15,741)	1,453
Reinsurance						
Accident & health	833	696	(327)	(281)	(86)	2
Reinsurance Total	833	696	(327)	(281)	(86)	2
Total	153,646	148,020	(73,236)	(57,502)	(15,827)	1,455

	Gross Premium Written 2014 £000	Gross Premium Earned 2014 £000	Gross Claims Incurred 2014 £000	Gross Operating Expenses 2014 £000	Ceded Balance 2014 £000	Total 2014 £000
Direct						
Accident & health	22,443	21,642	(10,318)	(8,396)	(569)	2,359
Marine	34,166	31,056	(31,955)	(8,770)	3,529	(6,140)
Fire & other damage to property	29,005	23,705	(7,564)	(10,949)	(1,858)	3,334
Third party liability	64,367	55,884	(29,953)	(20,924)	(3,294)	1,713
Direct Total	149,981	132,287	(79,790)	(49,039)	(2,192)	1,266
Reinsurance						
Accident & health	574	515	(246)	(171)	(41)	57
Reinsurance Total	574	515	(246)	(171)	(41)	57
Total	150,555	132,802	(80,036)	(49,210)	(2,233)	1,323

The reinsurance balance represents the charge or benefit to the technical account from the aggregate of all items relating to outwards reinsurance.

The geographical analysis of gross written premiums by reference to the location of the assured is as follows:

	2015 £000	2014 £000
United Kingdom	30,529	26,581
EU member states excluding the United Kingdom	29,379	31,819
Australia	33,713	38,510
United States of America	11,065	9,946
South Africa	7,154	6,065
Other including worldwide exposures	41,806	37,634
	153,646	150,555

All premiums were concluded in the UK.

Notes to the Financial Statements (continued)**6 Operating Expenses**

	2015	2014
	£000	£000
Acquisition costs	(35,716)	(34,235)
Change in deferred acquisition costs	1,987	4,870
Administrative expenses	(23,773)	(19,845)
Reinsurance commissions and profit participation	9,245	7,459
	<u>(48,257)</u>	<u>(41,751)</u>

7 Investment Income

	2015	2014
	£000	£000
Investment Income		
Income from investments	3,407	5,800
Net gains/ (losses) on realisation of investments	46	(1,651)
Investment management expenses, including interest	(524)	(422)
Net (losses)/ gains on unrealisation of investments	<u>(2,711)</u>	<u>3,878</u>
Total Investment income	218	7,605

8 Auditors' Remuneration

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

	2015	2014
	£000	£000
Fees payable to the Syndicate's auditors and their associates for the audit of the Syndicate's annual accounts	(51)	(46)
Fees payable to the Syndicate's auditors and their associates for other services:		
Audit related assurance services	(139)	(138)
Total	<u>(190)</u>	<u>(184)</u>

9 Directors' Remuneration and Employee Costs*(a) Directors' remuneration*

The Directors of AUAL and the Active Underwriter received the following aggregate remuneration charged to the Syndicate during the year:

	2015	2014
	£000	£000
Directors of the Managing Agent	931	766
Active Underwriter	210	197

Further information in respect of the Directors of AUAL is provided in that Company's financial statements.

Notes to the Financial Statements (continued)**9 Directors' Remuneration and Employee Costs (continued)***(b) Employee Costs*

The average number of staff employed by Arch Europe Insurance Services Ltd ("AEIS"), but working for the Syndicate during the year, analysed by category is as follows:

	2015	2014
Underwriting	26	24
Administration and finance	30	26
Claims	9	8
	<u>65</u>	<u>58</u>

The Managing Agent has a service and secondment agreement with AEIS, whereby staff employed by AEIS are provided to the Managing Agent.

	2015 £000	2014 £000
Salaries	4,659	4,563
Social security costs	941	953
Other pension costs	719	638
	<u>6,319</u>	<u>6,154</u>

10 Other Debtors

	2015 £000	2014 £000
Amounts due from associated undertakings	7,763	4,853
	<u>7,763</u>	<u>4,853</u>

11 Other Assets

	2015 £000	2014 £000
Claims Funds	3,838	2,544
Other	312	-
	<u>4,150</u>	<u>2,544</u>

12 Accruals and Deferred Income

	2015 £000	2014 £000
Deferred ceding commissions	5,774	4,736
	<u>5,774</u>	<u>4,736</u>

Notes to the Financial Statements (continued)**13 Financial Investments**

	Market Value 2015 £000	Cost 2015 £000	Market Value 2014 £000	Cost 2014 £000
Other variable yield securities				
Short term & cash equivalents	18,964	18,939	22,521	22,521
Other investments	7,158	6,777	8,358	8,332
	<u>26,122</u>	<u>25,716</u>	<u>30,879</u>	<u>30,853</u>
Debt and other fixed income securities				
Sovereign & government agency	92,639	91,823	83,670	81,657
Corporate bonds	43,010	42,315	49,221	48,475
Asset backed securities	805	781	2,081	1,942
	<u>136,454</u>	<u>134,919</u>	<u>134,972</u>	<u>132,074</u>

The Managing Agent believes that the carrying value of the investments is supported by their underlying net assets. The financial investments shown above are all listed investments.

Fair value

The fair values of financial assets and liabilities as shown in the statement of financial position:

	Fair value 2015 £000	Cost 2015 £000	Fair value 2014 £000	Cost 2014 £000
Other variable yield securities	26,122	25,716	30,879	30,853
Debt securities and other fixed income securities	136,454	134,919	134,972	132,074
Total market value	<u>162,576</u>	<u>160,635</u>	<u>165,851</u>	<u>162,927</u>

The fair values above were determined using the fair value hierarchy as defined in note 3 (b) (ii). The split by level is:

As at 31 December 2015

	Level 1 £000	Level 2 £000	Level 3 £000
Other variable yield securities	26,122	-	-
Debt securities and other fixed income securities	124,865	10,784	805
Overseas Deposits	27,841	7,871	-
	<u>178,828</u>	<u>18,655</u>	<u>805</u>

As at 31 December 2014

	Level 1 £000	Level 2 £000	Level 3 £000
Shares and other variable yield securities	30,237	-	642
Debt securities and other fixed income securities	121,429	11,462	2,081
Overseas Deposits	29,549	7,701	-
	<u>181,215</u>	<u>19,163</u>	<u>2,723</u>

All of the other liabilities are expected to be settled no more than twelve months after the balance sheet date.

Notes to the Financial Statements (continued)**14 Technical Provisions***(a) Summary of net technical provisions:*

	Gross 2015 £000	Ceded 2015 £000	Net 2015 £000	Gross 2014 £000	Ceded 2014 £000	Net 2014 £000
Notified claims	87,721	(15,089)	72,632	106,147	(32,732)	73,415
IBNR	135,774	(36,204)	99,570	131,527	(28,234)	103,293
Unearned Premium	81,799	(18,301)	63,498	76,402	(17,056)	59,346
Total	305,294	(69,594)	235,700	314,076	(78,022)	236,054

(b) Reconciliation of claims technical provisions:

	2015 £000	2014 £000
Net claims technical provisions brought forward		
Outstanding claims	73,415	63,366
IBNR claims	103,293	102,660
	<u>176,708</u>	<u>166,026</u>
Losses incurred in the year		
Current accident year	68,182	66,421
Prior accident years	(9,001)	(10,438)
	<u>59,181</u>	<u>55,983</u>
Paid losses		
Current accident year	(10,541)	(8,880)
Prior accident years	(50,674)	(37,189)
	<u>(61,215)</u>	<u>(46,069)</u>
Foreign exchange differences	(2,472)	768
Net claims technical provisions carried forward		
Outstanding claims	72,632	73,415
IBNR claims	99,570	103,293
	<u>172,202</u>	<u>176,708</u>

Notes to the Financial Statements (continued)**14 Technical Provisions (continued)***(c) Gross claims development triangles*

Underlying Pure Year	At end of underwriting year £000	One year later £000	Two years later £000	Three years later £000	Four years later £000	Five years later £000	Six years later £000	Cumulative payments £000	Outstanding reserves £000
2009	7,835	36,859	50,608	42,097	39,999	40,676	40,806	26,228	14,578
2010	27,845	78,940	76,981	68,516	64,115	58,960	-	37,034	21,927
2011	33,323	97,466	114,804	121,272	124,416	-	-	77,510	46,906
2012	28,548	63,929	68,363	66,877	-	-	-	35,101	31,775
2013	46,705	92,113	111,865	-	-	-	-	62,888	48,976
2014	27,015	68,351	-	-	-	-	-	27,379	40,971
2015	20,908	-	-	-	-	-	-	2,548	18,360
Total									223,494

(d) Net claims development triangles

Underlying Pure Year	At end of underwriting year £000	One year later £000	Two years later £000	Three years later £000	Four years later £000	Five years later £000	Six years later £000	Cumulative payments £000	Outstanding reserves £000
2009	5,993	30,558	40,026	35,030	33,931	34,557	34,945	22,117	12,828
2010	21,176	57,978	63,482	57,439	53,915	50,360	-	31,065	19,295
2011	23,483	65,731	75,866	78,625	83,475	-	-	51,095	32,380
2012	21,310	52,305	56,031	56,253	-	-	-	29,521	26,732
2013	33,291	66,677	76,781	-	-	-	-	41,718	35,063
2014	20,882	51,214	-	-	-	-	-	19,769	31,445
2015	16,629	-	-	-	-	-	-	2,170	14,459
Total									172,202

The tables below show the movements that occurred in the insurance provisions and related reinsurance assets during the year.

Claims Provisions

	Gross 2015 £000	Ceded 2015 £000	Net 2015 £000	Gross 2014 £000	Ceded 2014 £000	Net 2014 £000
At 1 January	237,674	(60,966)	176,708	217,750	(51,725)	166,025
Movement per technical account	(17,365)	15,331	(2,034)	22,289	(13,285)	9,004
Exchange rate impact	3,186	(5,658)	(2,472)	(2,365)	4,044	1,679
31 December	223,495	(51,293)	172,202	237,674	(60,966)	176,708

Notes to the Financial Statements (continued)**14 Technical Provisions (continued)***Unearned Premiums*

	Gross 2015 £000	Ceded 2015 £000	Net 2015 £000	Gross 2014 £000	Ceded 2014 £000	Net 2014 £000
At 1 January	76,402	(17,056)	59,346	60,153	(14,062)	46,091
Movement per technical account	5,626	(1,098)	4,528	17,753	(3,289)	14,464
Exchange Rate Impact	(229)	(147)	(376)	(1,504)	295	(1,209)
31 December	81,799	(18,301)	63,498	76,402	(17,056)	59,346

15 Funds at Lloyd's (FAL)

Arch Syndicate Investments Ltd is the sole Member of Syndicate 2012 and has funded the FAL set by Lloyd's through a combination of collateralised letters of credit, share capital and long term loans. Collateralised letters of credit totalling £101.8m (2014: £67.3m) are provided by Arch Reinsurance Ltd. on behalf of Arch Syndicate Investments Ltd and hence do not form part of these financial statements.

The remaining element of the FAL requirement amounts to £116.8m (2014: £103.8m) and this has been deposited into premium trust funds of Syndicate 2012 by Arch Syndicate Investments Ltd. The deposit is designated as Funds in Syndicate and forms part of Members' Balances.

16 Related Parties

Syndicate 2012 is managed by AUAL. The Directors of AUAL regard ACGL, a Company incorporated in Bermuda, as the ultimate holding company and controlling party. Copies of the consolidated financial statements of ACGL can be obtained from The Secretary, Arch Capital Group Ltd., Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

Arch Reinsurance Ltd

Syndicate 2012 has a whole account quota share reinsurance contract of 15% (2014: 15%) with Arch Reinsurance Ltd. The Syndicate ceded £19.8m (2014: £19.9m) of net written premiums during the 2015 financial year. The effect of the quota share contract reduced net underwriting results by £1.4m (2014: £1.6m) in the 2015 financial year.

Arch Underwriting at Lloyd's Ltd ("AUAL")

AUAL is the Managing Agent of Syndicate 2012. During 2015 the Syndicate paid the Managing Agent £415,000 (2014: £415,000) as a managing agent fee. The Managing Agent entered into a service and secondment agreement with Arch Europe Insurance Services Ltd ("AEIS"), whereby AEIS provides services in the form of staff and facilities to the managing agent.

Notes to the Financial Statements (continued)**16 Related Parties (continued)***Arch Underwriting at Lloyd's (Australia) Pty Ltd ("AUALA")*

This service company is wholly owned by the managing agency and is authorised to bind business on behalf of Syndicate 2012. During 2015 AUALA has bound £8.8m (2014: £5.9m) of gross written premiums on behalf of Syndicate 2012. The Syndicate has incurred a net loss of £2.1m (2014: loss £0.5m) on the business bound by the service company for the year ended 31 December 2015.

Arch Underwriting Managers at Lloyd's (South Africa) Pty Ltd ("AUMALSA")

This service company is wholly owned by the Managing Agency and is authorised to bind business on behalf of Syndicate 2012. During 2015 AUMALSA has bound £8.6m (2014: £6.6m) of gross written premiums on behalf of Syndicate 2012. The Syndicate has incurred a net loss of £1.0m (2014: loss £0.01m) on the business bound by the service company for the year ended 31 December 2015.

Arch Syndicate Investments Ltd

The Syndicate is supported by Arch Syndicate Investments Ltd, which provides 100% of its underwriting capacity, see note 14.

Arch Underwriting Agency (Australia) Pty Ltd ("AUAAPL")

This service company is wholly owned by the managing agency and is authorised to bind business on behalf of Syndicate 2012. During 2015 AUAAPL has bound £nil (2014: £4.6m) of gross written premiums on behalf of Syndicate 2012. The gross written premiums in 2015 are aggregated within the AUALA bound premiums and therefore form part of the £8.8m.

Axiom Underwriting Agency Limited ("Axiom")

The managing agency owns 75% of Axiom who is authorised to bind business on behalf of Syndicate 2012. During 2015, Axiom has bound £2.0m (2014: £nil) of gross written premiums on behalf of the Syndicate.

17 Restatements

This is the first year that the Syndicate has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2015. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the balance sheet as at 31 December 2014 between previously reported and restated.

Notes to the Financial Statements (continued)**17 Restatements (continued)****Profit and Loss Account: Technical Account – General Business**

For the year ended 31 December 2014

	Notes	Previously Stated £000	Effect of transition £000	FRS 102 £000
Gross premiums written		150,555	-	150,555
Outward reinsurance premiums		(37,944)	-	(37,944)
Net premiums written		112,611	-	112,611
Change in the gross provision for unearned premiums	A	(15,805)	(1,948)	(17,753)
Change in the provision for unearned premiums, reinsurers' share	A	2,810	479	3,289
Earned premiums, net of reinsurance		99,616	(1,469)	98,147
Total technical income		99,616	(1,469)	98,147
Claims incurred, net of reinsurance				
Claims paid				
-gross amount		(57,747)	-	(57,747)
-reinsurers' share		11,678	-	11,678
		(46,069)	-	(46,069)
Change in the provision for claims				
-gross amount	A	(23,199)	911	(22,288)
-reinsurers' share		13,285	-	13,285
		(9,914)	911	(9,003)
Claims incurred, net of reinsurance		(55,983)	911	(55,072)
Net operating expenses	A	(42,102)	350	(41,752)
Total technical charges		(98,085)	1,261	(96,824)
Balance on the technical account for general business		1,531	(208)	1,323

Notes to the Financial Statements (continued)**17 Restatements (continued)****Profit and Loss Account: Non-Technical Account**

For the year ended 31 December 2014

	Notes	Previously Stated £000	Effect of transition £000	FRS 102 £000
Balance on the general business technical account		1,531	(208)	1,323
Investment income	B	4,221	1,579	5,800
Gains on the realisation of investments		1,956	-	1,956
Unrealised gains on investments		3,878	-	3,878
Losses on the realisation of investments		(3,607)	-	(3,607)
Investment expenses and charges		(422)	-	(422)
		<u>6,026</u>	<u>1,579</u>	<u>7,605</u>
Non-Technical Profit and loss on exchange		-	(1,099)	(1,099)
Profit for the financial year		<u>7,557</u>	<u>272</u>	<u>7,829</u>

Statement of Other Comprehensive Income

For the year ended 31 December 2014

		Previously Stated £000	Effect of transition £000	FRS 102 £000
Profit/(loss) for the financial year		7,557	272	7,829
Other comprehensive income	A&B	1,665	(1,665)	-
Total comprehensive income		<u>9,222</u>	<u>(1,393)</u>	<u>7,829</u>

Notes to the Financial Statements (continued)**17 Restatements (continued)****Balance Sheet as at 31 December 2014**

		At 31 Dec 2014			
	Notes	Previously Stated	Effect of transition to UK GAAP	Reclassification	FRS 102
		£000	£000	£000	£000
ASSETS					
Financial Investments					
Shares and other variable yield securities		30,879	-	-	30,879
Debt securities and other fixed income securities		134,972	-	-	134,972
		165,851	-	-	165,851
Reinsurers' share of technical provisions					
Provision for unearned premiums	A	16,887	169	-	17,056
Claims outstanding		60,966	-	-	60,966
		77,853	169	-	78,022
Debtors					
Debtors arising out of direct insurance operations	C	71,534	-	27,107	98,641
Other debtors	C	34,505	-	(29,651)	4,854
		106,039	-	(2,544)	103,495
Other assets					
Cash at hand and in bank		26,059	-	-	26,059
Overseas deposits		37,250	-	-	37,250
Other assets	C	-	-	2,544	2,544
		63,309	-	2,544	65,853
Prepayments and accrued income					
Deferred acquisition costs	A	21,518	(468)	-	21,050
Other prepayments & accrued income	C	895	-	(14)	881
TOTAL ASSETS		435,465	(299)	(14)	435,152
LIABILITIES					
Capital and reserves					
Members' balance	A	89,763	979	-	90,742
Technical provisions					
Provision for unearned premiums	A	77,538	(1,137)	-	76,401
Claims outstanding		237,674	-	-	237,674
		315,212	(1,137)	-	314,075
Creditors					
Creditors arising out of direct insurance operations	C	18,763	-	(18,763)	-
Creditors arising out of reinsurance operations	C	-	-	18,763	18,763
Other creditors	C	6,850	-	(14)	6,836
		25,613	-	(14)	25,599
Accruals and deferred income					
	A	4,877	(141)	-	4,736
TOTAL LIABILITIES		435,465	(299)	(14)	435,152

Notes to the Financial Statements *(continued)***17 Restatements** *(continued)*

- (A) The Syndicate accounts now exclude the retranslation to inception rates for DAC and UPR which are now classified under UK GAAP as monetary items. This change is due to the new UK GAAP accounting standard that has come into force from 1st January 2015. Under FRS 102, monetary items must be reported at fair value.
- (B) Our investment reporting for the Syndicate has been updated to provide investment income between realised income, unrealised income and foreign exchange gains and losses. The foreign exchange gains and losses which were previously reported under foreign currency translation gains/(losses) has been restated to investment income. The 2014 investment foreign exchange loss is £1.6m
- (C) From a detailed review of the general ledger, there has been a focus to align a consistent methodology in reporting across all Arch entities. In light of this project, the Syndicate has reclassified the above accounts in the reclassification column to improve the consistency of our reporting.

Directors of the Managing Agent and Administration

Directors of the Managing Agent as at 15 March 2016

P. Camps
N. Denniston
D. Hipkin
M. Kier
J. Kittinger
P. Mailloux
P. Martin
D. McElroy
B. Singh
J. Weatherstone

Company Secretary

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