STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Arch Specialty Insurance Company for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Arch Specialty Insurance Company for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, reinsurance, financial statements, financial statement changes resulting from examination, comments on the financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Arch Specialty Insurance Company as of December 31, 2014 be and is hereby ADOPTED as filed and for Arch Specialty Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 31st day of May, 2016.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

FINANCIAL EXAMINATION OF

ARCH SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Jersey City, New Jersey
March 22, 2016

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Arch Specialty Insurance Company

hereinafter referred to as such, as ASIC, or as the Company. Its primary office is located at 300 Plaza Three, 3rd Floor, Jersey City, New Jersey, 07311, telephone number (201) 743-4000. This examination began on April 20, 2015 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a full scope financial examination of Arch Specialty Insurance Company. The previous examination of ASIC was completed as of December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2014. This examination also included material transactions or events occurring subsequent to December 31, 2014.

This examination was performed concurrently with the Missouri DIFP examinations of Arch Insurance Company (AIC), Arch Excess & Surplus Insurance Company (AESIC), and Arch Indemnity Insurance Company (AIIC).

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examiners relied upon information and workpapers provided by the Company's independent auditor, PricewaterhouseCoopers LLP (PwC) of New York, New York, for its audit covering the period from January 1, 2014 through December 31, 2014. Such reliance included, but was not limited to, fraud risk analysis, adjusting journal entry testing, internal control narratives, test of internal controls, and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

A change in ownership of ASIC's direct owner (Arch Insurance Company) occurred on December 15, 2015, when Arch Insurance Group, Inc. (AIGI) issued a stock dividend to Arch Reinsurance Company (ArchReCo), granting ArchReCo 100% of its stock ownership in AIC. There was no monetary effect on AIC as result of this dividend, and AIC's ultimate controlling entity (Arch Capital Group, Ltd., or ACGL) remained the same. The change had no impact on operations, management, or the directors/officers of AIC or its subsidiaries.

COMPANY HISTORY

General

Arch Specialty Insurance Company (formally known as Rock River Insurance Company) was incorporated on December 22, 1964, under the laws of Illinois, and commenced the business of insurance effective January 1, 1965. On September 30, 1999 the Company was purchased by

Sentry Insurance, and redomesticated to Wisconsin in July, 2000. Effective February 1, 2002, ASIC was purchased by Arch Capital Group, Ltd. Through a series of contributions of its stock within the ACGL group, the Company became a wholly owned sole subsidiary of Arch Insurance Company. The Company changed its name to Arch Specialty Insurance Company on August 1, 2002, and redomesticated to the State of Nebraska on December 18, 2006 as an excess and surplus lines insurer. The Company redomiciled to the State of Missouri effective September 30, 2014 as an admitted excess and surplus lines insurer.

Dividends

ASIC paid a $45.0 million dividend to AIC in 2012. No other dividends were declared or paid during the examination period.

Capital Contributions

ASIC received capital contributions during 2012 and 2013 in the amounts of $5,327,811 and $6,269,470, respectively. In 2014, the Company returned $1,318,934 of the 2013 contributions due to an adjustment related to tax benefits on employee stocks and options.

Mergers and Acquisitions

On January 30, 2014, Arch U.S. MI Holdings (the U.S. based subsidiary of ACGL) acquired CMG Mortgage Insurance Company (CMG MI) from CUNA Mutual Group and PMI Mortgage Insurance Co. The acquisition of CMG MI and the operating platform will form the foundation for Arch Mortgage Insurance Company to offer mortgage insurance throughout the United States. The acquisition had no impact on operations, management, or the directors/officers of AIC or its subsidiaries.

CORPORATE RECORDS

ASIC's Articles of Incorporation and Bylaws were reviewed for any changes or updates during the period under examination. As a result of the redomestication from Nebraska to Missouri, both the Articles and the Bylaws were amended during 2014 to comply with Missouri statutes and regulations.

MANAGEMENT AND CONTROL

Board of Directors

The Company's Articles of Incorporation specify that the Board of Directors (Board) shall consist of between nine and twenty-five members. This complies with 379.035 RSMo (Articles of Incorporation for Stock Companies). The Directors elected and serving as of December 31, 2014 were as follows:

Name and Address	Business Affiliation
David H. McElroy West Simsbury, CT	Chairman and Chief Executive Officer Arch Insurance Company and subsidiaries
Dennis R. Brand Harvard, IL	Senior Executive Vice President and Chief Administrative Officer Arch Insurance Company and subsidiaries
Thomas J. Ahern Ridgewood, NJ	Senior Vice President, Chief Financial Officer, and Treasurer Arch Insurance Company and subsidiaries
Michael D. Price Westfield, NJ	Executive Vice President and Chief Underwriting Officer Arch Insurance Company and subsidiaries
John P. Mentz Lakeville, MN	President Arch Insurance Company and subsidiaries
Lawrence F. Harr[1] Omaha, NE	Practicing Attorney Lamson, Dugan and Murray, LLP
Michael R. Murphy Short Hills, NJ	Vice Chairman Arch Insurance Company and subsidiaries
Martin J. Nilsen[1] Rockville Center, NY	Director Arch Insurance Company and subsidiaries
Marita A. Oliver New York, NY	Senior Vice President, Corporate Underwriting Arch Insurance Company and subsidiaries

Although all but one of the members of ASIC's Board of Directors as indicated above are employees of ACGL entities, indicating a lack of independence in the Company's governance, this is not unusual given the ownership structure of ASIC as a subsidiary of a publicly-held corporation. To ascertain independence and prudent corporate governance standards, the examination reviewed the composition of the Board of Directors of ACGL, the ultimate controlling entity of ASIC. ACGL's current Board of Directors is comprised of eleven directors, two of whom are employees. ACGL's Board of Directors concluded that the nine non-employee directors are independent as defined under the applicable listing standards of the NASDAQ Stock Market, LLC (NASDAQ). The audit, compensation and nominating committees of the ACGL Board are composed entirely of independent directors.

[1] During the first quarter of 2015, these Board members were replaced Patrick K. Nails and John A. Rafferty.

Senior Officers

The following officers were elected and serving as of December 31, 2014:

Name	Office
David H. McElroy	Chairman and Chief Executive Officer
John P. Mentz	President
Michael R. Murphy	Vice Chairman
Dennis R. Brand	Senior Executive Vice President and Chief Administrative Officer
Roy G. Mahlstedt	Senior Executive Vice President, Programs
David M. Siesko	Senior Executive Vice President, Chief Claims Officer
Glenn R. Yanoff	Senior Executive Vice President
Glenn L. Ballew	Executive Vice President, Lenders
William J. Casey, Jr.	Executive Vice President, Chief Marketing Officer
Thomas A. Clark	Executive Vice President, Programs
David M. Finkelstein	Executive Vice President, Surety
Lyle S. Hitt	Executive Vice President, Professional Liability
Michael L. Kmetz	Executive Vice President, Property Administration
Mark H. Lima	Executive Vice President, Southeast Region Branch Administrator
Steven D. Nelson	Executive Vice President, Healthcare
William A. Palmer	Executive Vice President, Midwest Region Branch Administrator
Michael D. Price	Executive Vice President, Chief Underwriting Officer
John A. Rafferty	Executive Vice President, Executive Assurance
Richard L. Richiski	Executive Vice President, Accident and Health
Matthew A. Shulman	Executive Vice President, Executive Assurance
Richard A. Stock	Executive Vice President
Thomas J. Ahern	Senior Vice President, Chief Financial Officer, and Treasurer
Patrick K. Nails	Senior Vice President, Secretary, and General Counsel

Principal Committees

Pursuant to ASIC's Bylaws, the Board of Directors may designate one or more committees comprised solely of members of the Board, each of which shall consist of at least three members. At the June 1, 2011 meeting, the Board appointed members to an Executive Committee and an Investment and Finance Committee. The appointed members of the Investment and Finance Committee as of December 31, 2014 were David H. McElroy, Thomas J. Ahern, Dennis R. Brand, Michael R. Murphy, and Martin J. Nilsen[2]. Although the Executive Committee was inactive during the examination period, its members as of December 31, 2014 were David H. McElroy, Dennis R. Brand, and Michael R. Murphy.

The Company's Board of Directors designated the ACGL Audit Committee to act as its Audit Committee. As of December 31, 2014, ACGL's Audit Committee consisted of James J. Meenaghan (Chairman), Yiorgis Lillikas, Brian S. Posner and Robert F. Works. AGCL's Board

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[2] During the first quarter of 2015, Martin J. Nilsen was replaced by Patrick K. Nails.

determined that all of the Audit Committee members were independent under the applicable standards of NASDAQ and the Securities Exchange Act of 1934 and that Mr. Meenaghan qualifies as an "audit committee financial expert" under the rules of the Securities and Exchange Commission.

Besides the Board committees discussed above, ASIC has established various management committees to provide oversight and guidance. These include the Enterprise Risk Management Committee, the Reserve Review Committee, the Reinsurance Steering Committee, the IT Steering Committee, and the Anti-Fraud Committee.

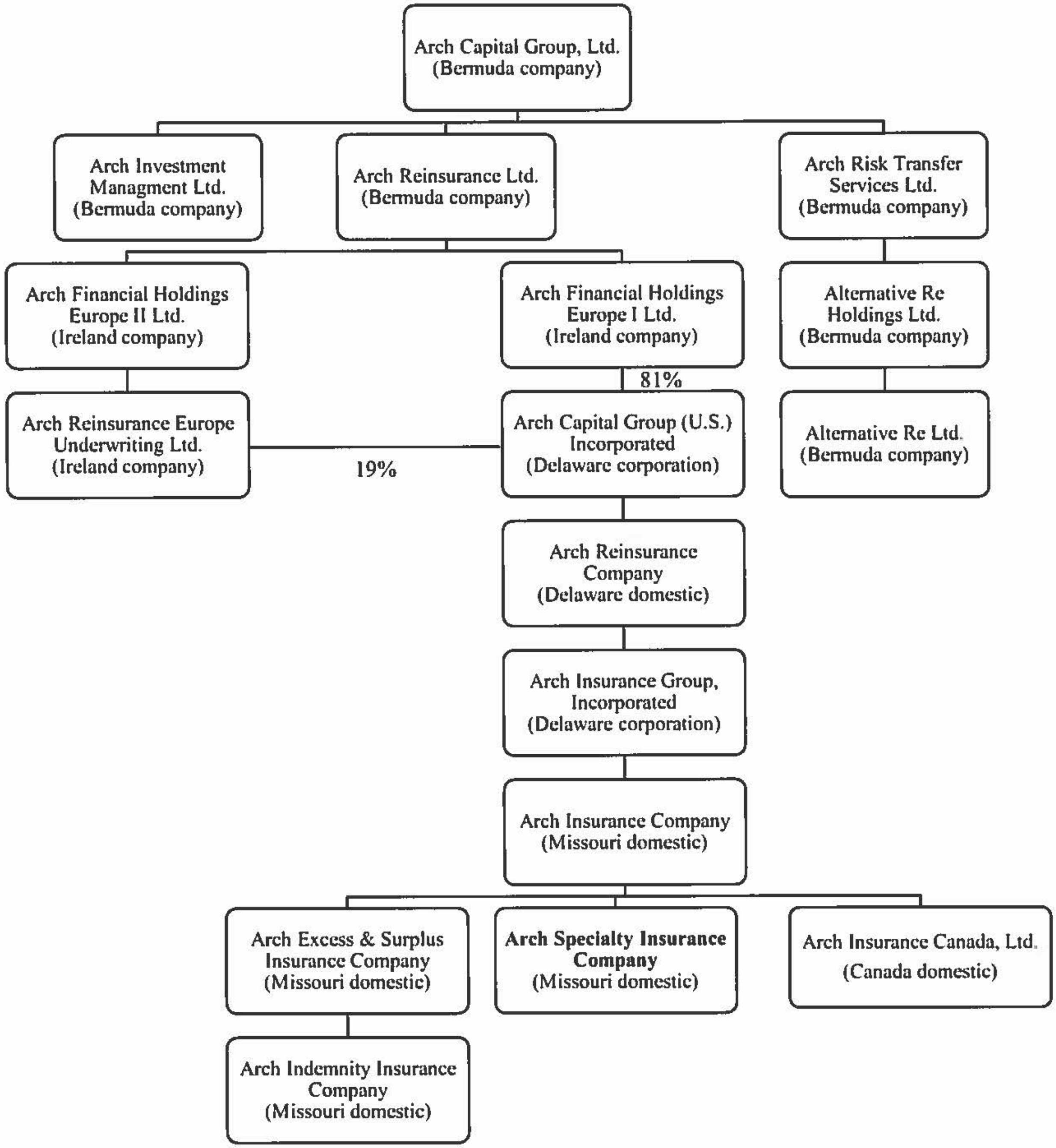
Holding Company, Subsidiaries and Affiliates

ASIC is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). It is a wholly owned subsidiary of AIC which, as of December 31, 2014, was in turn a wholly owned subsidiary of AIGI. AIGI is ultimately owned by ACGL, a Bermuda-based publicly held limited liability company whose assets primarily consist of investments in subsidiaries. ACGL provides insurance and reinsurance on a worldwide basis through its wholly owned subsidiaries in Europe, Bermuda, the United States, and Canada.

ACGL is traded on the NASDAQ National Market under the symbol ACGL. Funds associated with Artisan Partners Holdings LP (Artisan) owned 17.9% and 16.7% of the shares of ACGL in 2014 and 2013 respectively. Artisan submitted to the DIFP a disclaimer of affiliation stating the holdings in ACGL are held for investment purposes only. No other stockholder owned 10% or more of ACGL.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2014 (all subsidiaries shown are wholly owned unless otherwise noted):


Arch Capital Group, Ltd. (Bermuda company)
Arch Investment Managment Ltd. (Bermuda company)
Arch Reinsurance Ltd. (Bermuda company)
Arch Risk Transfer Services Ltd. (Bermuda company)
Arch Financial Holdings Europe II Ltd. (Ireland company)
Arch Financial Holdings Europe I Ltd. (Ireland company)
Alternative Re Holdings Ltd. (Bermuda company)
81%
Arch Reinsurance Europe Underwriting Ltd. (Ireland company)
19%
Arch Capital Group (U.S.) Incorporated (Delaware corporation)
Alternative Re Ltd. (Bermuda company)
Arch Reinsurance Company (Delaware domestic)
Arch Insurance Group, Incorporated (Delaware corporation)
Arch Insurance Company (Missouri domestic)
Arch Excess & Surplus Insurance Company (Missouri domestic)
Arch Specialty Insurance Company (Missouri domestic)
Arch Insurance Canada, Ltd. (Canada domestic)
Arch Indemnity Insurance Company (Missouri domestic)

Intercompany Transactions

The Company is a party to significant intercompany agreements in effect as of December 31, 2014 as outlined below:

1. Type: Service Agreement
   Parties: AIGI and ASIC
   Effective: February 1, 2002
   Terms: AIGI provides ASIC with supervision of all phases of its operations, including, but not limited to, the following: underwriting, actuarial studies, claims service, accounting, data processing, and other responsibilities. For the services provided, AIGI is compensated for the direct costs incurred in providing services.

2. Type: Investment Manager Agreement
   Parties: Arch Investment Management Ltd. (AIM) and ASIC
   Effective: June 1, 2006
   Terms: AIM is to provide investment management services on behalf of ASIC. The services are to include the investment and reinvestment of the ASIC's assets, the reporting of the market value of investments, the reconciliation of accounting, transaction, and investment summary data with custodian reports, and the appointment of brokers. AIM is also to advise, oversee, and review any third-party investment manager's services. ASIC shall compensate AIM on a quarterly basis in arrears based upon its pro-rata portion of the average of the total assets of the ACGL Companies managed by AIM. AIM shall receive 10 basis points for the first $500 million of assets and 8 basis points for assets over $500 million for directly managed accounts and 7.5 basis points for indirectly managed accounts.

3. Type: Intercompany Short Term Advance Agreement
   Parties: AIGI, AIC, ASIC, AESIC, and AIIC
   Effective: December 31, 2007
   Terms: Parties to the agreement are authorized to make advances to one another for a maximum term of thirty (30) days. No advances may exceed more than three percent (3%) of the lending or borrowing party's policyholders' surplus as of December 31 of the preceding year. The rate of interest will be the prime rate plus 100 basis points.

4. Type: Amended and Restated Tax Sharing Agreement
   Parties: Arch Capital Group, Inc. (ACGI) and subsidiaries, including AIC, ASIC, AESIC, and AIIC
   Effective: November 1, 2014
   Terms: ACGI is to collect from, or refund to, each subsidiary the amount of federal income taxes or benefits determined as if the subsidiary filed a separate return. Balances arising out of the agreement are to be settled no less often than quarterly.

5. Type: (Computer Equipment) Cost Allocation Agreement-
   Parties: AIGI, AIC, ASIC, AESIC, and AIIC
   Effective: June 1, 2004
   Terms: AIGI has the primary responsibility for purchases of computer equipment; however, this agreement is in place in the event management determines a purchase should be made by an insurance entity. Depreciation shall be allocated among AIC, ASIC, AESIC, and AIIC in direct proportion to the ratio of direct premiums written by each of the Companies to total direct premiums written. AIC will bill ASIC, AESIC, and AIIC for their share of the depreciation expense on no less than a quarterly basis with payment due within thirty days of receipt of the bill.

6. Type: Cost Allocation Agreement – 3rd Amended and Restated Property Catastrophe Excess of Loss Reinsurance
   Parties: ACGL and subsidiaries, including AIC, ASIC, AESIC, and AIIC
   Effective: January 1, 2011
   Terms: ACGL is to purchase property catastrophe excess of loss reinsurance protection on behalf of its subsidiaries. Costs of the reinsurance protection are to be allocated to each business line written by the subsidiaries based upon each business line's loss exposure and then allocated to each subsidiary based upon gross net earned premiums. Payments are to be made to ACGL within ten business days after each deposit premium quarterly installment. Annual adjustments are to be paid within 10 business days after notification of the final amount. Any recoveries under the coverage are to be paid to the subsidiaries which paid the losses.

TERRITORY AND PLAN OF OPERATION

ASIC is licensed as a surplus lines insurer under Chapter 384 RSMo (Surplus Line Insurance). The Company is licensed in Missouri only, but is an approved excess and surplus lines insurer in the other 49 states, the District of Columbia, Puerto Rico, and the Virgin Islands. The states with the largest percentage of direct written premium in 2014 were as follows: Florida – 21%, New York – 16%, California – 11%, Texas – 8%, Louisiana – 4%.

The major lines of business for ASIC, based upon 2014 direct written premiums, are listed in the table below.

Line of Business	Direct Written Premiums	Percent of Total
Fire	$149,876,484	27.1%
Other Liability – Occurrence	142,629,698	25.8%
Other Liability – Claims Made	69,069,020	12.5%
Medical Professional Liability	60,245,081	10.9%
Earthquake	41,607,395	7.5%
All Other	89,268,592	16.2%
Total	$552,696,270	100.0%

The Company's operations are not managed by Annual Statement lines of business, but by business units that mirror the products that are marketed. Four business units (Property, Contract Binding, Healthcare, and Excess & Specialty Casualty) accounted for approximately 76% of ASIC's direct written premiums in 2014. Descriptions of these business units are listed below:

- Property – Difficult to place risks are targeted, which includes properties with underwriting deficiencies, vacant buildings, high hazard manufacturers, municipalities, housing authorities, and catastrophe exposures (hurricane, flood, earthquake).
- Contract Binding – The target customer class is small to medium sized commercial accounts specializing in lessors' risk, retail stores, condominium and townhouse associations, contractors, and vacant buildings. The main coverage provided is general liability with smaller levels of product liability and commercial multiple peril.
- Healthcare – Medical malpractice liability coverage is provided to all types and sizes of providers, clinics, hospitals, labs, diagnostic centers, and surgery centers.
- Excess and Specialty Casualty – Mostly general liability coverage is provided with smaller levels of product liability and commercial auto liability. The target industries include power generation, mining, oil and gas, construction, manufacturing, service, hospitality and leisure, agriculture, and transportation.

REINSURANCE

General

The Company's written premium activity on a direct, assumed and ceded basis for the period under examination is detailed below:

	2012	2013	2014
Direct Business	$ 449,991,586	$ 515,913,985	$ 552,696,270
Reinsurance Assumed			
Affiliates	-	-	-
Non-Affiliates	6,776,237	2,180,805	3,895,829
Reinsurance Ceded			
Affiliates	(250,073,620)	(456,473,068)	(488,885,144)
Non-Affiliates	(206,693,864)	(61,620,229)	(66,771,118)
Net Premiums Written	$ 339	$ 1,493	$ 935,837

Assumed

During the examination period, insurance was assumed from various unaffiliated insurers, primarily on a facultative basis. Assumed premiums for 2014 were $3.9 million, with the largest amount from a single reinsurer being $700,000.

Ceded

During the examination period, ASIC's most significant reinsurer was its parent, AIC. In 2014, ASIC ceded $487 million (88% of its total ceded premiums) to AIC. ASIC's December 31, 2014 net reinsurance recoverable from AIC was $1.02 billion, representing 74% of its total net reinsurance recoverable. Under its agreements with AIC, ASIC cedes 100% of its net retained liability under all policies, contracts, agreements, binders, endorsements, etc. These agreements covered the majority of ASIC's business with the exception of its Alternative Market Business Profit Center.

ASIC ceded business to other unaffiliated authorized and unauthorized reinsurers under a variety of treaty and facultative reinsurance contracts on a quota share and excess of loss basis. In 2014, premium ceded to these non-affiliated reinsurers totaled $66.7 million or 12% of all premiums ceded, with the largest reinsurer accounting for $11.5 million. As of December 31, 2014, the amount recoverable from unaffiliated unauthorized US reinsurers was $252,000. As of December 31, 2014, 98% of the $34.7 million recoverable from unaffiliated unauthorized foreign reinsurers was secured by funds held, letters of credit, or trust accounts.

During 2014, the Company was party to a property catastrophe excess of loss program purchased by ACGL, on behalf of ASIC and other ACGL subsidiaries. The total aggregate net loss the Company would incur in any single event was $150 million. The Company also maintained a worker's compensation excess of loss program. The total aggregate net loss the Company would incur in any single event was $50 million.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period-ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items". These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual activity.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 333,141,960	$ -	$ 333,141,960
Cash and short-term investments	15,191,213	-	15,191,213
Other invested assets	17,479,538	-	17,479,538
Receivables for securities	4,952	-	4,952
Investment income due and accrued	2,496,646	-	2,496,646
Uncollected premiums and agents' balances in course of collection	16,373,055	3,184,091	13,188,964
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,434,048	-	4,434,048
Amounts recoverable from reinsurers	50,497,842	-	50,497,842
Current federal and foreign income tax recoverable and interest thereon	76,262	-	76,262
Net deferred tax asset	12,357,181	1,592,377	10,764,804
Aggregate write-ins for other assets:			
Advance claim payments	21,949,345	-	21,949,345
Deductible and other recoveries	7,056,836	6,018,101	1,038,735
Other assets	3,309,420	3,016,471	292,949
TOTAL ASSETS	**$ 484,368,298**	**$ 13,811,040**	**$ 470,557,258**

Liabilities, Surplus and Other Funds

Losses	$	1,051,743
Loss adjustment expenses		44,754,935
Commissions payable, contingent commissions and other similar charges		3,481,211
Other expenses (excluding taxes, licenses and fees)		197,810
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,343
Unearned premiums		426,348
Advance premium		157,773
Ceded reinsurance premiums payable (net of ceding commissions)		85,608,964
Funds held by company under reinsurance treaties		2,191,609
Amounts withheld or retained by company for account of others		152,578
Remittances and items not allocated		5,901,346
Provision for reinsurance		946,772
Payable to parent, subsidiaries and affiliates		7,956,549
Aggregate write-ins for liabilities:		
Deferred ceding commission liability		20,336,705
Return premium payable		1,777,714
Claims payable		1,732,488
Summary of remaining write-ins		1,443,363
TOTAL LIABILITIES	**$**	**178,119,251**
Common capital stock		5,000,000
Gross paid in and contributed surplus		233,419,614
Unassigned funds (surplus)		54,018,393
Surplus as regards policyholders	**$**	**292,438,007**
TOTAL LIABILITIES AND SURPLUS	**$**	**470,557,258**

Statement of Income

Underwriting Income		
Premiums earned	$	509,671
Deductions:		
Losses incurred		1,465,127
Loss adjustment expenses		13,489,998
Other underwriting expenses incurred		(19,341,125)
Total underwriting deductions	$	(4,386,000)
Net underwriting gain or (loss)	**$**	**4,895,671**
Investment Income		
Net investment income earned		5,469,290
Net realized capital gains or (losses)		1,450,397
Net investment gain or (loss)	**$**	**6,919,687**
Other Income		
Net gain (loss) from agents' premium balances charged off		(682,725)
Aggregate write-ins for miscellaneous income		192,497
Total other income	**$**	**(490,228)**
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$	11,325,130
Dividends to policyholders		-
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$	11,325,130
Federal and foreign income taxes incurred		3,646,537
NET INCOME	**$**	**7,678,593**

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013	**$**	**283,454,374**
Net income		7,678,593
Change in net unrealized capital gains or (losses)		1,744,301
Change in net deferred income tax		1,275,909
Change in nonadmitted assets		(1,452,318)
Change in provision for reinsurance		1,056,082
Paid in surplus		(1,318,934)
Change in surplus as regards policyholders for the year	**$**	**8,983,633**
Surplus as regards policyholders, December 31, 2014	**$**	**292,438,007**

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

SUMMARY OF RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Arch Specialty Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Tim Tunks, Examiner-In-Charge, CPA, CFE, Steven Koonse, CFE, Sara McNeely, CFE, Marc Peterson, CFE and Bernie Troop, CFE, examiners for the Missouri DIFP, also participated in this examination. Kimberly Dobbs, CFE, AES, Information Systems Financial Examiner for the Missouri DIFP, performed a review of the information system environment. Glenn A. Tobleman, FSA, FCAS, MAAA, of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Jennifer R. Danz, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Arch Specialty Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Jennifer R Danz

Jennifer R. Danz, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 6th day of April, 2016.

My commission expires: 5-27-2018 Amber King
Notary Public

AMBER KING
Notary Public
Commission # 14978645
Christian County
Notary Seal
STATE OF MISSOURI
My Commission Expires 05-27-2018

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed except where practices, procedures and applicable regulations of the MO DIFP and statutes of the State of Missouri prevailed.

Mark A. Nance, CPA, CFE
Senior Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration