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 Insurance Company for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Arch 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 Insurance Company as of December 31, 2014 be and is hereby ADOPTED as filed and for Arch 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 INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

FILED

JUN 09 2016

DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

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 Insurance Company

hereinafter referred to as such, as AIC, 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 Insurance Company. The previous examination of AIC 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 Specialty Insurance Company (ASIC), Arch Excess & Surplus Insurance Company (AESIC), and Arch Indemnity Insurance Company (AIIC), direct and indirect subsidiaries of AIC.

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 Arch Insurance Company's direct owner 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 Insurance Company, formerly known as First American Insurance Company, was incorporated on December 15, 1971, as a stock casualty insurance company, and was granted authority pursuant to the provisions of Chapter 379 RSMo (Insurance Other than Life) to commence the business of insurance effective June 30, 1980. AIC was incorporated as a wholly owned subsidiary of First American Financial Corporation (FAFC).

On June 4, 2001, the DIFP approved the acquisition of FAFC and the Company by Arch Capital Group, Ltd. In 2002, the name of First American Financial Corporation was changed to Arch Insurance Group, Inc. On June 26, 2002, the DIFP approved the name change of First American Insurance Company to Arch Insurance Company.

Dividends

No dividends were declared or paid by AIC during the examination period.

Capital Contributions

The Company received capital contributions during 2012 and 2013 of $19.4 million and $126.7 million, respectively. In 2014, the Company returned $4.6 million 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

The Company's Articles of Incorporation (Articles) and Bylaws were reviewed for any changes during the period under examination. The Articles were amended in 2014 to change the address of the Company's statutory address. There were no changes or amendments to the Bylaws during the examination period.

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 S. Edack[1] Oakland, CA	Senior Executive Vice President, Casualty 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 AIC'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 AIC as a subsidiary of a publicly-held corporation. To ascertain independence and prudent corporate governance standards, the

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

examination reviewed the composition of the Board of Directors of ACGL, the ultimate controlling entity of AIC. 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.

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
John S. Edack	Senior Executive Vice President, Casualty
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 AIC'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.

AIC'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 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, AIC 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

AIC is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). AIC is the sole owner of ASIC and AESIC. ASIC is a Missouri-domiciled approved excess and surplus lines insurer in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands and a licensed insurer in one state. AESIC, which is not currently writing business, is a Missouri-domiciled approved excess and surplus lines insurer in 47 states and the District of Columbia and a licensed insurer in one state. AESIC is the sole owner of AIIC. AIIC, which currently writes only workers' compensation insurance, is a Missouri-domiciled licensed insurer in 49 states and the District of Columbia.

As of December 31, 2014, AIC was 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 its 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):

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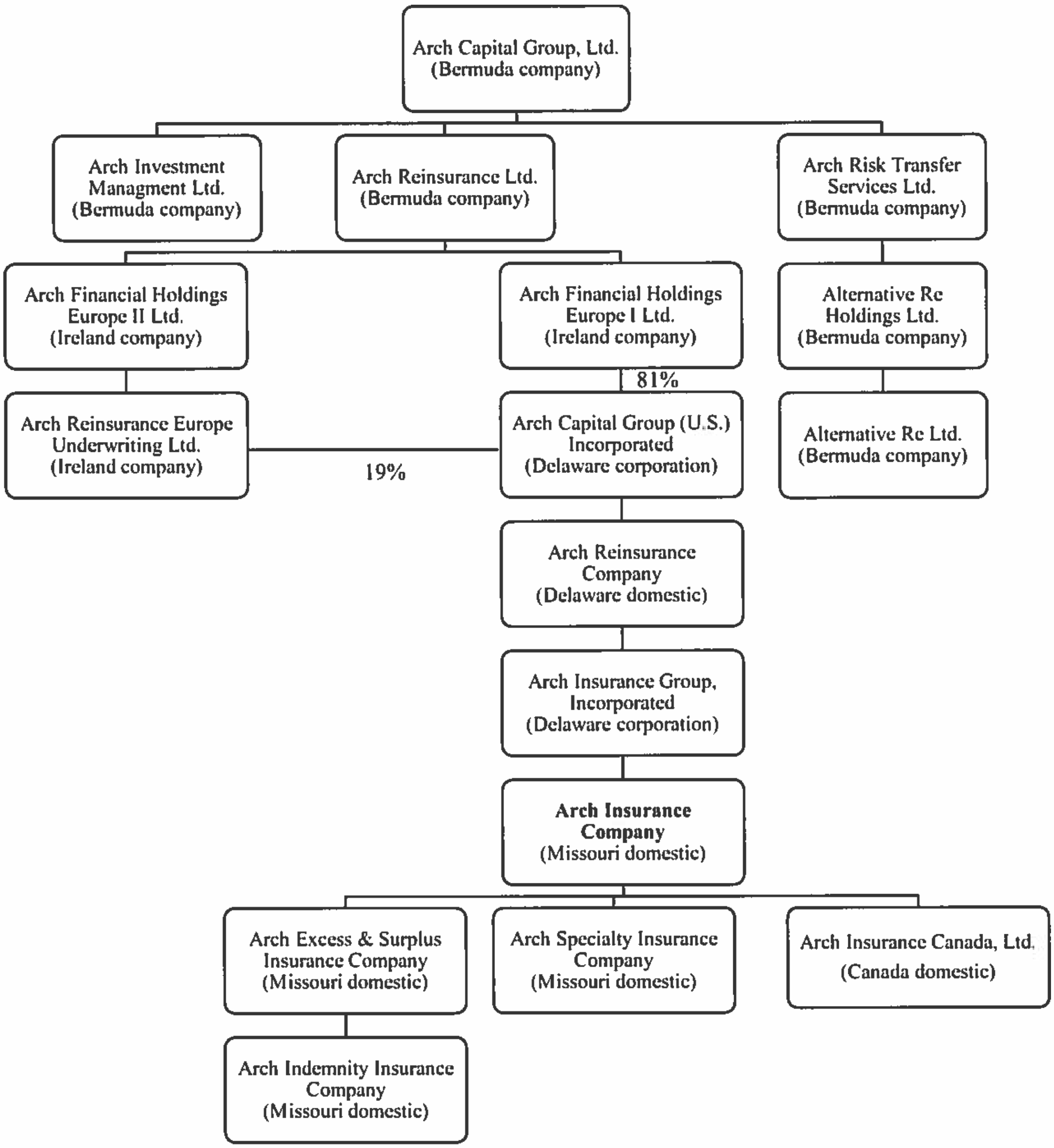
[2] During the first quarter of 2015, Martin J. Nilsen was replaced by Patrick K. Nails.


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 AIC
   Effective: July 1, 2004
   Terms: AIGI provides AIC 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 AIC
   Effective: April 1, 2006
   Terms: AIM is to provide investment management services on behalf of AIC. The services are to include the investment and reinvestment of the AIC'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. AIC 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

AIC is licensed as a property and casualty insurer by the DIFP under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed and writes direct business in all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. The states with the largest percentage of direct written premium in 2014 were as follows: California – 18%, New York – 12%, Texas – 9%, Florida – 5%, Pennsylvania – 5%.

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

Line of Business	Direct Written Premiums	Percent of Total
Workers' Compensation	$ 382,887,366	21.9%
Other Liability – Claims Made	310,841,374	17.8%
Commercial Auto Liability	220,281,499	12.6%
Other Liability – Occurrence	203,837,169	11.7%
Commercial Multiple Peril	160,586,089	9.2%
All Other	468,735,825	26.8%
Total	$1,747,169,322	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. Three business units: Construction, National Accounts, Alternative Markets, and High Excess Workers' Compensation (CNAX); Programs; and Executive Assurance – accounted for approximately 75% of AIC's direct written premiums in 2014. Descriptions of these business units are listed below:

- CNAX– This business represents a variety of customer classes, including contractors, manufacturing, retail stores, service industries, restaurant chains, hotels, and financial institutions. Workers' compensation is the main coverage provided for CNAX customers. General liability and commercial auto liability are other coverage types.
- Programs – Managing general agents and program administrators produce and service the business. There were sixteen active programs at year-end 2014. Commercial multiple peril coverage is provided for specialized entities, such as fire districts, ambulance services, addiction treatment centers, pest control, security guards, water districts, and temporary staffing. Professional liability coverage is provided for law firms, accounting firms, insurance agencies, real estate agents, and design and environmental professionals.
- Executive Assurance – Various liability coverages are provided, including directors' and officers' liability, management liability, errors and omissions liability, employment practices liability, fiduciary liability, and commercial crime. Customer classes include all sizes of privately held and publicly traded firms, partnerships, and non-profit organizations.

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	$ 1,440,701,766	$ 1,416,330,577	$ 1,747,169,322
Reinsurance Assumed			
Affiliates	249,647,726	457,772,455	501,574,165
Non-Affiliates	50,614,412	26,297,656	27,569,200
Reinsurance Ceded			
Affiliates	(642,398,607)	(786,730,310)	(950,740,592)
Non-Affiliates	(348,559,988)	(454,036,311)	(540,038,044)
Net Premiums Written	$ 750,005,309	$ 659,634,067	$ 785,534,051

Assumed

During the examination period, the majority of the Company's assumed business was from its directly and indirectly owned insurance subsidiaries (ASIC, AESIC, and AIIC). These three subsidiaries accounted for 94% of all 2014 assumed reinsurance premiums.

The majority of the remaining non-affiliated business was assumed on a facultative basis, with no individual cedent accounting for more than 2.1% of the remaining balance.

Ceded

AIC has a complex ceded reinsurance program which varies by the type of business written and/or the business division. AIC varies the retention, limit, and structure of its reinsurance program based on management's view of the volatility of the subject business, the gross limits underwritten, and the availability of acceptable reinsurance in regards to terms and cost from reinsurers meeting the Company's specific standards for financial strength.

During the examination period, AIC's most significant reinsurer was a Bermuda affiliate, Arch Reinsurance, Ltd. (ArchReBermuda). In 2014, AIC ceded $904 million (61% of its total ceded premiums) to ArchReBermuda. AIC's December 31, 2014 net reinsurance recoverable from ArchReBermuda, fully collateralized by assets held in a trust account, was $2.28 billion, representing 70% of AIC's total net reinsurance recoverable. Under its agreements with ArchReBermuda, AIC ceded on a quota share basis, a percentage of its net retained liability after other reinsurance. These agreements covered the majority of AIC's business with the exception of business written by its Alternative Market Business Profit Center. The ceded percentage during the period under examination for covered business varied from 30% to 80%, depending upon the year and the business segment covered.

Of the remaining $46 million in premium AIC ceded to affiliates during the examination period, the majority, $36 million (78%), was ceded to Alternative Re Ltd. and related to the Alternative Market Program that is excluded from AIC's quota share agreements with ArchReBermuda. AIC writes policies for middle market commercial clients who want to self-insure their workers' compensation or general liabilities exposures then cedes these policies to Alternative Re Ltd. through facultative quota-share agreements.

AIC 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 $540 million (36% of all premiums ceded), with the largest non-affiliated reinsurer accounting for $47 million. As of December 31, 2014, the amount recoverable from unaffiliated unauthorized US reinsurers was $20.5 million, all fully secured. As of December 31, 2014, 98% of the $410 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 AIC 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 workers' 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	$2,003,424,640	$ -	$2,003,424,640
Common stocks	441,536,973	-	441,536,973
Cash and short-term investments	127,486,649	-	127,486,649
Other invested assets	1,223,915	-	1,223,915
Receivables for securities	7,598	-	7,598
Securities lending reinvested collateral assets	28,028,470	-	28,028,470
Investment income due and accrued	14,041,786	-	14,041,786
Uncollected premiums and agents' balances in course of collection	127,847,422	14,836,968	113,010,454
Deferred premiums, agents' balances and installments booked but deferred	205,355,811	-	205,355,811
Amounts recoverable from reinsurers	14,328,755	-	14,328,755
Funds held by or deposited with reinsured companies	3,192,333	-	3,192,333
Other amounts receivable under reinsurance contracts	206,794	-	206,794
Net deferred tax asset	101,405,615	45,539,690	55,865,925
Receivables from parent, subsidiaries and affiliates	2,410,031	-	2,410,031
Aggregate write-ins for other assets:			
Advance claim payments	153,305,774	-	153,305,774
Deductible recovery	20,883,586	3,883,251	17,000,335
Equity and deposits in pools	12,842,770	-	12,842,770
Other assets	21,359,531	13,769,269	7,590,262
TOTAL ASSETS	**$3,278,888,453**	**$ 78,029,178**	**$3,200,859,275**

Liabilities, Surplus and Other Funds

Losses	$	1,107,538,878
Reinsurance payable on paid losses and loss adjustment expenses		42,110,764
Loss adjustment expenses		248,948,927
Commissions payable, contingent commissions and other similar charges		30,743,825
Other expenses (excluding taxes, licenses and fees)		1,089,468
Taxes, licenses and fees (excluding federal and foreign income taxes)		34,551,717
Current federal and foreign income taxes		4,840,173
Unearned premiums		347,898,150
Advance premium		6,873,740
Policyholders dividends declared and unpaid		1,780,056
Ceded reinsurance premiums payable (net of ceding commissions)		168,613,930
Funds held by company under reinsurance treaties		50,658,136
Amounts withheld or retained by company for account of others		199,971,426
Remittances and items not allocated		21,913,682
Provision for reinsurance		10,004,561
Payable to parent, subsidiaries and affiliates		3,764,455
Payable for securities		32,763,282
Payable for securities lending		28,028,470
Aggregate write-ins for liabilities:		
Deferred ceding commission liability		51,074,642
Claims payable		17,445,739
Return premium payable		7,167,302
Other liabilities		4,710,016
TOTAL LIABILITIES	**$**	**2,422,491,339**
Common capital stock		5,000,000
Gross paid in and contributed surplus		619,356,419
Unassigned funds (surplus)		154,011,517
Surplus as regards policyholders	**$**	**778,367,936**
TOTAL LIABILITIES AND SURPLUS	**$**	**3,200,859,275**

Statement of Income

Underwriting Income	
Premiums earned	$ 745,157,637
Deductions:	
Losses incurred	382,872,684
Loss adjustment expenses	118,425,644
Other underwriting expenses incurred	219,314,487
Total underwriting deductions	$ 720,612,815
Net underwriting gain or (loss)	**$ 24,544,822**
Investment Income	
Net investment income earned	$ 33,210,910
Net realized capital gains or (losses)	6,120,834
Net investment gain or (loss)	**$ 39,331,744**
Other Income	
Net gain (loss) from agents' premium balances charged off	$ (123,225)
Finance and service charges not included in premiums	148,348
Miscellaneous other income	(587,252)
Total other income	**$ (562,129)**
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 63,314,437
Dividends to policyholders	780,269
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 62,534,168
Federal and foreign income taxes incurred	24,956,460
NET INCOME	**$ 37,577,708**

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013	**$ 736,627,397**
Net income	37,577,708
Change in net unrealized capital gains or (losses)	9,651,350
Change in net unrealized foreign exchange capital gain (loss)	(708,365)
Change in net deferred income tax	13,962,301
Change in nonadmitted assets	(15,319,587)
Change in provision for reinsurance	1,143,537
Paid in surplus	(4,566,405)
Net change in surplus as regards policyholders for the year	**$ 41,740,539**
Surplus as regards policyholders, December 31, 2014	**$ 778,367,936**

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 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 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