REPORT ON EXAMINATION

OF

ARCH REINSURNCE COMPANY

AS OF

DECEMBER 31, 2014

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

ARCH REINSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: ______________________

Date: October 22, 2015

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 22nd day of October, 2015.

____
Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

OF THE

ARCH REINSURANCE COMPANY

AS OF

DECEMBER 31, 2014

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 22nd day of October, 2015

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SALUTATION

July 31, 2015

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.023, dated February 3, 2015, an examination has been made of the affairs, financial condition and management of

ARCH REINSURANCE COMPANY

hereinafter referred to as the "Company" or "Arch Re" and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted at the main administrative office of the Company, located at 445 South Street, Suite 220, Morristown, New Jersey. The examination was a coordinated examination and was conducted concurrently with the Missouri Department of Insurance Department. The State of Missouri was the assigned lead state by the National Association of Insurance Commissioners (NAIC). Separate reports of examination are being filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of Arch Reinsurance Company. The last examination covered the period of January 1, 2008 through December 31, 2011, and was performed by the Nebraska Department of Insurance. This examination covers the period of January 1, 2012 through December 31, 2014, and was performed by the Delaware Department of Insurance.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. 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.

This 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 (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the company.

During the course of this examination, consideration was given to work performed by the Company's external auditing firm, PricewaterhouseCoopers LLC (PwC). Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination. Please refer to summary of recommendation for non-adverse findings.

COMPANY HISTORY

General

The Company was originally incorporated as a stock insurance corporation in the State of Nebraska as Risk Capital Reinsurance Company on July 20, 1995. At that time, the Company was a 100% subsidiary of Risk Capital Holdings, Inc., which was formed in March 1995. The Company commenced operations on November 6, 1995.

On April 24, 2000, the Company's name was changed to Arch Reinsurance Company. Likewise, the Company's parent changed its name to Arch Capital Group (U.S.) Inc. at the same time.

On November 8, 2000, Arch Capital Group (U.S.) Inc. completed a reorganization and became a subsidiary of Arch Capital Group Ltd. (ACGL).

With proper regulatory approvals, the Company re-domesticated from the State of Nebraska to the State of Delaware effective September 15, 2014.

Capitalization

The Company is authorized to issue 1,000,000 shares of common capital stock with a par value of $5 per share. Currently, all 1,000,000 shares are issued and held by Arch Capital Group

(U.S.) Inc. The following table reflects the Company's capitalization activity since the prior examination:

	Capital Stock	Gross Paid-in & Contributed Surplus
December 31, 2011	$5,000,000	$636,449,130
Activity	0	171,310,477
December 31, 2014	$5,000,000	$807,759,607

The Company received capital contributions from its parent during the examination period in order to make capital contributions to its wholly-owned subsidiary Arch Insurance Company (MO) to increase its risk-based capital ratios.

Dividends

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors' meetings, no dividends were paid to the sole stockholder.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board).

Directors shall be elected annually by the sole shareholder and the number of directors is currently fixed by a Board resolution at seven members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. Directors are not required to be Shareholders or residents of Delaware to qualify.

The Board of Directors, duly elected in accordance with its bylaws and serving at December 31, 2014, were as follows:

Name & Location	Principal Business Affiliation
Gary Blumsohn West Orange, NJ	Executive Vice President & Chief Actuary Arch Reinsurance Company
James C. Franson Chester, NJ	Executive Vice President & Chief Underwriting Officer Arch Reinsurance Company
Barry E. Golub Manalapan, NJ	Chief Financial Officer Arch Reinsurance Company
Marc Grandisson Smiths, Bermuda	Chairman and Chief Executive Officer Arch Worldwide Reinsurance and Mortgage Groups
Lawrence F. Harr Omaha, NE	Law Firm Partner Lamson, Dugan and Murray, LLP
Timothy J. Olson Edina, MN	Chairman and Chief Executive Officer Arch Reinsurance Company
Timothy W. Forshay Pompton Plains, NJ	Treasurer Arch Reinsurance Company

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, Managing Directors, Vice Presidents (including Executive Vice Presidents and Senior Vice Presidents), a Treasurer and a Secretary, and such other officers as may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except that the President and the Secretary shall not be the same person. The senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2014, were as follows:

Name	Office
Timothy J. Olson	Chairman of the Board and Chief Executive Officer
Jerome Y. S. H. Halgan	President
Barry E. Golub	Chief Financial Officer
Timothy W. Forshay	Treasurer

Gary Blumsohn	Executive Vice President & Chief Actuary
James C. Franson	Executive Vice President & Chief Underwriting Officer
Janet L. Kummert	Vice President and Corporate Secretary

Committees of the Board

As of December 31, 2014, the Board of Directors had one standing committee: the Investment Committee constituted by Gary Blumsohn, Barry E. Golub and Timothy J. Olson.

Corporate Records

The recorded minutes of the shareholders, Board and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, which included the approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period. A review of the Company's bylaws revealed that a change was made during the examination period.

The Company is in compliance with 18 Del. C. § 4919 "any change of directors, officers"; notice, "Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers".

Insurance Holding Company System

The Company is a member of an insurance holding company system known as Arch Capital Group Ltd. (ACGL) as defined under 18 Del. C. §5001 of the Delaware Insurance Code. The Company maintains that ACGL, a publicly traded holding company domiciled and based in Bermuda, is the ultimate controlling entity of the group. As of December 31, 2014, ACGL had consolidated assets of $22.0 billion and shareholders' equity of $6.9 billion.

As of December 31, 2014, only Artisan Partners Holding LP (Artisan) owns or controls greater than 10% or more of ACGL at 17.97%. While the Company was domesticated in the State of Nebraska, Artisan filed a Disclaimer of Affiliation with the Nebraska Department of Insurance, which was approved on May 9, 2011. The Delaware Department of Insurance accepts the Disclaimer of Affiliation as approved by the Nebraska Department of Insurance with the same ownership limits and requirements.

A partial organizational chart of the Arch Capital Group as of December 31, 2014, is as follows with domicile in brackets (ownership of subsidiaries is 100% unless otherwise noted):

- Arch Capital Group Ltd. [Bermuda]
  - Arch Reinsurance Ltd. [Bermuda]
    - Arch Financial Holdings Europe II Limited [Ireland]
      - Arch Reinsurance Europe Underwriting Limited [Ireland] {1}
    - Arch Financial Holdings Europe I Limited [Ireland] {2}
      - Arch Capital Group (U.S), Inc. [Delaware] {1}{2}
        - **Arch Reinsurance Company [Delaware] {3}**
          - Capital Protection Insurance Services, LLC [Delaware] {3}
          - Elements Property Insurance Holdings LLC [Florida]
          - Arch Re Facultative Underwriters Inc. [Delaware]
          - Arch Insurance Group Inc. [Delaware]
            - Arch Insurance Company [Missouri]
              - Arch Excess & Surplus Insurance Company [Missouri]
                - Arch Indemnity Insurance Company [Missouri]
              - Arch Specialty Insurance Company [Missouri]

{1} Arch Reinsurance Europe Underwriting Limited owns 19% of Arch Capital Group (U.S.), Inc.

{2} Arch Financial Holdings Europe I Limited owns 81% of Arch Capital Group (U.S.), Inc.

{3} Arch Reinsurance Company owns 49% of Capital Protection Insurance Services, LLC

Affiliated Agreements

Service Agreement

The Company entered into a Service Agreement with Arch Insurance Group Inc. (AIGI) effective April 1, 2003, with amendment #1 effective the same date. AIGI provides the Company with operational assistance and support including, but not limited to, personnel, data processing, systems work, records maintenance, information technology, legal and consultation services and general overhead services (such as office space, equipment, supplies, advertising, allocation of expenses and collection and handling of premium monies). Under the terms of the Service Agreement, the Company shall pay as compensation to AIGI all costs incurred by AIGI in providing the services set forth above except for general overhead services. In addition, the Company shall reimburse AIGI for all reasonable and documented out-of-pocket expenses upon a mutually agreeable basis. This agreement was non-disapproved by the Nebraska Department of Insurance prior to the current examination period.

Investment Manager Agreement

The Company entered into an Investment Manager Agreement with Arch Investment Management Limited (AIML) effective April 1, 2006, and most recently amended effective October 1, 2013. AIML provides investment advisory services to the Company for its investment portfolio, including reconciling accounting, transaction and asset summary data with the custodian reports and communicates and resolves any significant discrepancies with the custodian. The Company settles with AIML quarterly for the provided services. The original agreement and amendment #1 were non-disapproved by the Nebraska Department of Insurance prior to the current examination period. Amendment #2 was non-disapproved by the Nebraska Department of Insurance on October 31, 2013.

Facultative Administrative Services Agreement

The Company entered into a Facultative Administrative Services Agreement with Arch Re Facultative Underwriters Inc. (ARFU) effective June 1, 2007. ARFU provides administrative services to the Company's facultative division, such as underwriting supervision, marketing, records maintenance, supervision of employees and assisting in reserve setting. ARFU does not have the authority to underwrite or bind insurance or reinsurance on behalf of the Company. ARFU shall report and the Company shall settle amounts due under this agreement monthly. This agreement was non-disapproved by the Nebraska Department of Insurance prior to the current examination period.

Administrative Support Services Agreement

The Company entered into an Administrative Support Services Agreement with Arch Insurance Canada Ltd. (AICL) effective January 1, 2013. AICL provides the Company with non-underwriting administrative and support services for the Company's Canadian business as are reasonably requested by the Company from time to time. AICL shall report and the Company shall settle amounts due under this agreement quarterly. This agreement was non-disapproved by the Nebraska Department of Insurance on January 3, 2013.

Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement with Arch Capital Group (U.S.), Inc. (Arch-US) and its subsidiaries dated January 1, 2002, and effective for tax year beginning January 1, 2002. The Company and its U.S. affiliates file a consolidated U.S. federal income tax return in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986 (as amended). Arch-US allocates the consolidated U.S. tax liability or benefit to each entity and settles balances due to or from Arch-US at the end of the taxable year. Each affiliate that is a party to the Tax

Sharing Agreement shall reimburse Arch-US for their pro rata share of all legal and accounting expenses incurred by Arch-US in the course of conduct of any audit or contested item regarding any consolidated tax liability, and for all expenses incurred by Arch-US in the course of any litigation relating thereto. The pro rata share of expenses for each affiliate shall be determined by Arch-US in its sole discretion based on each affiliate's share of the tax liability giving rise to such expenses. This agreement was non-disapproved by the Nebraska Department of Insurance prior to the current examination period.

The 2002 Tax Sharing Agreement was replaced with a similar Amended and Restated Tax Sharing Agreement with Arch-US dated December 1, 2013, and effective for the tax year beginning January 1, 2013. This agreement was non-disapproved by the Nebraska Department of Insurance on April 1, 2014.

The 2013 Amended and Restated Tax Sharing Agreement with Arch-US was replaced with a similar Third Amended and Restated Tax Sharing Agreement dated November 1, 2014, and effective for the tax year beginning January 1, 2014. This agreement was approved by the Delaware Department of Insurance on February 27, 2015.

Unaffiliated Agreements

Securities Lending Agreement and Guaranty

The Company entered into a Securities Lending Agreement and Guaranty with The Bank of New York (BONY) effective September 14, 2005. The Company's lending limit under this program is $200 million. Collateral required to be posted is 102% of the amount borrowed/lent. The borrowing cap per borrower under this program is $52.6 million. There were securities lending collateral balances of $0 (annual statement asset line 10) and corresponding liability of $0 million (annual statement liability line 22) at December 31, 2014.

Custodian Agreement

The Company entered into a Custodian Agreement with Mellon Bank, N.A. (Mellon) effective October 1, 2007. Pursuant to the agreement, Mellon acts as the custodian for the Company's portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

Reinsurance Security Agreement

The Company (as Pledgor) entered into a Reinsurance Security Agreement with ACE INA Insurance (as Secured Party) and RBC Dexia Services Trust (as Custodian) effective November 30, 2011, relating to Canadian reinsurance business under the affiliated quota share reinsurance agreement with ARL.

Credit Agreement

The Company and several ACGL affiliates entered into a three-year Restated Credit Agreement with Bank of America, N.A. (Bank of America) and several other financial institutions (with Bank of America acting as administrator on behalf of the other financial institutions) effective August 18, 2011, for a $300 million unsecured revolving loan and letter of credit facility and a $500 million secured letter of credit facility. This 2011 agreement replaced the group's similar Credit Agreement dated August 30, 2006. The 2011 Restated Credit Agreement was replaced with a similar Amended and Restated Credit Agreement with the same limits effective June 30, 2014.

Under the terms of the agreement, the Company is limited to issuing an aggregate of $100 million of unsecured letters of credit as part of the $300 million unsecured revolving loan. Borrowings of revolving loan may be made by ACGL and the Company at a variable rate based on the prevailing London Inter-Bank Offered Rate (LIBOR) or based on an alternative rate at the option of ACGL. Secured letters of credit are available for issuance on behalf of ACGL's insurance and reinsurance subsidiaries.

Each party in the Arch Group is responsible for their individual borrowings under this agreement. In addition, certain letters of credit are secured by a respective portion of that Company's investment portfolio. With respect to the unsecured letters of credit, each party is responsible for its own payments and liable only to the extent of its own commitments. Therefore, in the event of a default of the Group facility, the lenders cannot seize the aggregate assets to satisfy the aggregate letters of credit obligations. In addition, secured letter of credit facilities also require the maintenance of certain covenants and conditions, which the group was in compliance with at December 31, 2014.

As of December 31, 2014, the group and Arch Re have no outstanding unsecured letters of credit balances.

As of December 31, 2014, the group had $423.2 million (of which $28.2 million relates to Arch Re) in outstanding letters of credit under this agreement, which were secured by investments with a fair value of $483.5 million at fair value (of which $33.4 million relates to Arch Re). All of the Company's outstanding letters of credit are secured.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2014, the Company has certificates of authority to write business in the District of Columbia and all but three states, Maine, Wisconsin and Wyoming. The Company meets the standards as an accredited reinsurer in those three states.

The Company operates out of its main administrative office located in Morristown, New Jersey, where its treaty reinsurance underwriting team (the "Treaty Division") is based. The

Morristown office has about 50 employees performing underwriting, finance, claims, actuarial, IT and administrative functions. Additionally, there are three underwriters and an actuary in a Hoffman Estates, Illinois office.

The Company also has a property facultative reinsurance underwriting division (the “Facultative Division”) which currently employs approximately 65 personnel in its thirteen U.S. offices, located in Atlanta, Boston, Charlotte, Chicago, Columbus, Dallas, Farmington, Kansas City, Los Angeles, New York, Philadelphia, San Ramon and St. Paul. To provide administrative services to the Facultative Division, the Company established a wholly-owned subsidiary, Arch Re Facultative Underwriters Inc (“ARFU”), which operates out of the office in Farmington and has seven employees.

In addition, the Company recently established a Canadian branch in two locations, Toronto, Ontario and Montreal, Quebec. The Arch Re Canadian Branch has seven employees in its treaty division and nine employees in its facultative division.

Plan of Operation

The Company’s lines of business reinsured include aviation and aerospace, casualty clash/catastrophe coverage, catastrophe excess of loss, commercial transportation, directors’ and officers’ liability, employment practices liability, errors and omissions, fiduciary liability crime, medical professional liability, non-standard automobile liability, non-traditional reinsurance, property, pro rata program with per occurrence caps, regional U.S. property catastrophe, surety and worker’s compensation.

The Company writes business on both a proportional and non-proportional basis and writes both treaty and facultative business, by assuming business from insurance and reinsurance companies domiciled in the United States and abroad, which meet certain financial and underwriting criteria established by the Company. The Company utilizes the services of reinsurance intermediaries, including Aon Benfield, Guy Carpenter, Willis Re and other national brokers, as the primary means of producing business.

The business is segmented for internal underwriting purposes into the following divisions:

Casualty – The Company reinsures third-party liability and workers' compensation exposures from ceding insurance companies primarily on a treaty basis. The exposures that the Company reinsures include directors' and officers' liability, professional liability, automobile liability, workers' compensation and excess and umbrella liability. The Company reinsures this business on a proportional (quota share) and non-proportional (excess of loss) basis. On working casualty business, which is treated separately from casualty clash business, the Company prefers to participate on treaties where there is a meaningful amount of actuarial data and where loss activity is more predictable.

Property Excluding Catastrophe – The Company reinsures individual property risks of a ceding insurance company. Property per risk treaty and pro rata reinsurance contracts that the Company participates in covers claims from individual insurance policies issued by reinsureds and include both personal lines and commercial property exposures (principally covering buildings, structures, equipment and contents). The primary perils in this business include fire, explosion, collapse, riot, vandalism, wind, tornado, flood and earthquake. Additionally, through the property facultative reinsurance group, reinsurance is accepted on a facultative basis whereby the reinsurer assumes all or part of the risk under a single reinsurance contract. Facultative reinsurance is typically purchased by ceding insurance companies for individual risks not covered by their reinsurance treaties, for unusual risks or for amounts in excess of the limits on their reinsurance treaties. The property facultative reinsurance group focuses on commercial property risks on an excess of loss basis.

Property Catastrophe – The Company reinsures catastrophic perils for reinsureds on a treaty basis. Treaties in this type of business provide protection for most catastrophic losses that are covered in the underlying policies written by the reinsureds. The primary perils include hurricane, earthquake, flood, tornado, hail and fire. The Company may also provide coverage for other perils on a case-by-case basis. Property catastrophe reinsurance provides coverage on an excess of loss basis when aggregate losses and loss adjustment expenses from a single occurrence of a covered peril exceeds the retention specified in the contract.

Specialty – The Company reinsures other specialty lines, including non-standard automobile, surety, accident and health, workers' compensation catastrophe, trade credit and political risk.

Aviation – The Company reinsures aviation business, which includes coverages for airlines and general aviation risks.

Other – The Company reinsures non-traditional business, which is intended to provide insurers with risk management solutions that complement traditional reinsurance and casualty clash business.

The Company has a rating of "A+" *(Superior)* from A.M. Best.

Net premiums written (rounded) in 2014 by business segment were as follows:

Business Segment	**Premiums**	**Percentage of Total**
Casualty	$ 112,787,000	45.95%
Casualty Clash	1,788,000	0.73%
Aviation	4,367,000	1.78%
Other Specialty	43,881,000	17.88%
Property Catastrophe	10,502,000	4.28%
Property Excl. Prop Cat.	72,155,000	29.39%
Total	$ 245,480,000	100.00%

Net written premiums (rounded) in 2014 by line of business (top 5) were as follows:

Lines of Business	**Premiums**	**Percentage of Total**
Reinsurance non-proportional assumed property	$ 71,319,000	29.05%
Other liability claims made	58,108,000	23.67%
Reinsurance non-proportional assumed liability	24,193,000	9.86%
Other liability occurrence	19,660,000	8.01%
Private passenger auto liability	18,311,000	7.46%
All Others	53,889,000	21.95%
Total	$ 245,480,000	100.00%

REINSURANCE

General

The Company reported the following distribution of net premiums written for 2014:

Direct	$ 0
Reinsurance assumed from affiliates	$ 1,065,747
Reinsurance assumed from non-affiliates	635,872,552
Total gross (direct and assumed)	$636,938,299
Reinsurance ceded to affiliates	$386,979,558
Reinsurance ceded to non-affiliates	4,478,244
Total ceded	$391,457,802
Net premiums written	$245,480,497

The Company retained 38.54% of its gross business in 2014.

Assumed

The Company assumes business from a wide range of unaffiliated insurance and reinsurance companies entirely through brokers and intermediaries, with approximately 80% treaty and 20% facultative in 2014. The assumed treaties contain the required intermediary clause wording in compliance with 18 Del. C. §1604.

The 2014 unaffiliated assumed premiums by cedent (and domicile in parentheses) are as follows:

	Premiums (in 000s)	Percent of Total
XL Reinsurance America Inc. (NY)	$146,286	23.01%
Protected Insurance Program for Schools (CA)	35,007	5.50%
Access Insurance Company (TX)	34,365	5.40%
Republic Underwriters Insurance Company (TX)	28,434	4.47%
AXIS Specialty Insurance Company (CT)	19,497	3.07%
All Others	372,284	58.55%
Total	$635,873	100.00%

Ceded

As of December 31, 2014, the Company had only two significant affiliated retrocessional agreements covering the general book of business. Of the Company's $387.0 million ceded to affiliates in 2014, $247.4 million was ceded to affiliate Arch Reinsurance Ltd. (ARL), $138.2 million was ceded to affiliate Watford Re Limited (Watford) and $1.4 million was ceded to affiliate Arch Insurance Company.

The Company entered into a Quota Share Reinsurance Agreement with affiliate ARL, a multi-line Bermuda-based reinsurer, effective January 1, 2003, with ten endorsements since inception, the most recent being October 1, 2014. The original agreement specified that the Company will cede 90% of the net liability of the Company under all policies, contracts, agreements, binders, endorsements and other evidence of insurance, or contracts of reinsurance issued and/or renewed by the Company during the term of the agreement. Beginning January 1, 2006, the cessions have varied from 50% to 80% pursuant to several endorsements to the agreement. Currently, the Company cedes business to ARL on a quota share basis the following: (a) for all contracts issued by the Company's Canadian branch, 80% of net retained liabilities; (b) for U.S. contracts issued by the Company's U.S. operations, 80% of net retained liabilities on personal accident, workers compensation catastrophe, casualty clash-high layer and casualty clash-low layer; (c) for all other U.S. contracts issued by the Company's U.S. operations, 50% of net retained liabilities. ARL pays a flat ceding commission of 31% to the Company for all business ceded to ARL under this agreement. ARL's limit of liability on any one loss occurrence is $60.0 million.

In order for the Company to obtain full financial credit for this reinsurance, due to the fact that ARL is an unauthorized reinsurer, the Company signed a Trust Agreement to permit

ARL to collateralize its obligations. ARL has agreed to fund reserves in respect of unearned premiums, known outstanding losses reported to it and allocated loss adjustment expenses relating thereto, losses and allocated loss adjustment expenses paid by the Company but not recovered from ARL, plus reserves for losses incurred but not reported. Within thirty days of ARL's receipt of the quarterly premium and loss reports from the Company, ARL is required to adjust the assets held in the trust account so that the market value of such assets meets or exceeds 100% of ARL's obligations. Effective October 1, 2007, Mellon Bank succeeded the Bank of New York as trustee and entitlement holder with respect to the assets deposited into the trust account. ARL has agreed to pay all fees and also agreed to reimburse Mellon Bank for all out-of-pocket expenses and disbursements (including attorney's fees and expenses) in connection with Mellon Bank's duties under the Trust Agreement.

The Company entered into a Variable Quota Share Reinsurance Agreement with affiliate Watford, a multi-line, Bermuda-based reinsurer, effective January 1, 2014, with endorsement #1 effective April 1, 2014. The Company retrocedes business to Watford up to a maximum ceding percentage of 80%. There is no stated minimum ceding percentage, however, management has indicated that it is 25%. Ceded contracts shall have a calculated minimum return on equity (ROE) of 10%. As ceding commission to the Company, Watford pays the sum of acquisition fees and an override equal to 7% of earned gross premiums on proportional ceded contracts and 16% of earned gross premiums on excess of loss ceded contracts. However, the ceding fee in the aggregate for all ceded contracts which incept during any underwriting year shall not be less than 16% of earned gross premiums and shall not exceed 45% of earned gross premiums. Under this agreement, the Company may opt, however, for a lower ceding fee. Under the terms of the agreement, if the Company cedes more than 60% to Watford, then it will not cede anything to

ARL. The maximum limits to Watford under this agreement for the Company's ceded percentage share are as follows: $6.0 million per risk, $10.0 million natural peril per event and $10.0 million terrorism. If there is no per risk limit but structured on an aggregate basis, then the ceded percentage of the aggregate limit of liability shall not exceed $10.0 million.

The Schedule F data contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions. The affiliated ceded reinsurance agreements noted above were reviewed and evaluated for compliance with SSAP 62R of the NAIC Accounting Practices and Procedures Manual and appeared to include the required contractual clauses.

Deposit Accounting

The Company assumes certain policies and contracts that are deemed, for financial purposes, not to transfer sufficient insurance risk, and are therefore accounted for using the deposit method of accounting in accordance with SSAP 62R. As of December 31, 2014, there were thirteen contracts accounted for under this method, all incepting between September 1, 2002, and January 1, 2005, usually for one-year terms. The financial details of these contracts were properly disclosed at Note 23.G to the financial statements of the 2014 annual statement in accordance with SSAP 62R and the *NAIC P&C Annual Statement Instructions*.

The Company has recorded assets which consist of cash deposits or, in some instances, payments for $20.676 million, offset by a corresponding liability of $22.758 million and a reduction to unassigned surplus of $2.082 million, which included income statement items, consisting of a current year charge to interest expense of $1.733 million.

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the State Department of Insurance, are reflected in the following:

- o Statement of Assets, Liabilities and Surplus
- o Statement of Operations
- o Reconciliation of Surplus for the period since the last examination
- o Supporting schedules and exhibits to the extent needed

ARCH REINSURANCE COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2014

Assets	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$722,591,557		$722,591,557	1
Common Stocks	749,973,460	5,971,378	744,002,082	2
Cash and Short Term Investments	67,098,090		67,098,090	
Other invested assets	3,104,477		3,104,477	
Receivables for securities	20,090		20,090	
Investment income due and accrued	5,655,687		5,655,687	
Premiums and Considerations:				
Uncollected premiums and agents balances	18,013,628	1,643,956	16,369,672	
Deferred premium	132,053,849		132,053,849	
Reinsurance:				
Amounts recoverable from reinsurers	19,652,857	80,322	19,572,535	
Funds held on deposite or with reinsured companies	4,593,807		4,593,807	
Current federal and foreign income tax recoverable	914,435		914,435	
Net deferred tax asset	25,667,662	14,868,942	10,798,720	
EDP equipment and software	392,026	0	392,026	
Furniture and equipment	2,835,348	2,835,348	0	
Net adjustment in asset and liabilities due to exchange rates	1,118,053		1,118,053	
Aggregate write-ins for other than invested assets	8,873,422	300,721	8,572,701	
Total Assets	**$1,762,558,448**	**$25,700,667**	**$1,736,857,781**	

ARCH REINSURANCE COMPANY
STATEMENT OF LIABILITES AND SURPLUS
DECEMBER 31, 2014

		NOTES
Losses	$312,868,869	3
Reinsurance payable on paid losses	1,906,595	
Loss adjustment expenses	30,498,374	3
Commissions payable	0	
Other expenses	15,208,873	
Taxes, licenses and fees	0	
Current federal and foreign income taxes	0	
Unearned premiums	108,082,128	
Ceded reinsurance premiums payable	136,265,010	
Funds held by company under reinsurance	0	
Provision for reinsurance	169,568	
Payable for securities	5,148,117	
Aggregate write-ins for liabilities	22,758,136	
Total Liabilities	$632,905,670	
Common capital stock	$5,000,000	
Gross paid in and contributed surplus	807,759,607	
Unassigned funds (surplus)	291,192,504	
Surplus as regards policyholders	$1,103,952,111	
Total liabilities, surplus and other funds	**$1,736,857,781**	

ARCH REINSURANCE COMPANY
STATEMENT OF OPERATIONS
DECEMBER 31, 2014

Underwriting Income	
Premiums earned	$238,702,093
Deductions	
Losses incurred	$ 112,438,198
Loss adjustment expenses incurred	11,906,683
Other underwriting expenses incurred	80,129,574
Total underwriting deductions	$ 204,474,455
Net underwriting gain or (loss)	$ 34,227,638
Investment Income	
Net investment income earned	$ 12,326,304
Net realized capital gains (losses) less capital gains tax of $1,531,34	1,612,054
Net investment gain or (loss)	$ 13,938,358
Other Income	
Net gain or (loss)	$ -
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	1,733,084
Total other income	$ 1,733,084
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$ 49,899,080
Federal and foreign income taxes incurred	16,607,528
Net Income	$33,291,552

ARCH REINSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2014

Description	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)	Total Surplus
Balance as of January 1, 2011	$ 5,000,000	$ 636,449,130	$ 181,490,035	$ 822,939,165
2012 Operations (1)	-	-	(26,141,006)	(26,141,006)
2013 Operations (1)	-	-	74,857,891	74,857,891
2014 Operations (1)	-	-	60,985,584	60,985,584
2012 Capital Contribution (2)	-	25,816,969	-	25,816,969
2013 Capital Contrbution (2)	-	115,755,124	-	115,755,124
2014 Capital Contribution (2)	-	29,738,384	-	29,738,384
Balance as of December 31, 2014	$ 5,000,000	$ 807,759,607	$ 291,192,504	$ 1,103,952,111

(1) Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and aggregate write-ins for gains and losses to surplus.

(2) Capital Contributions is defined as: surplus adjustments paid in.

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

(Note 1) Bonds **$722,591,557**

The Company's bonds represent 47.0% of invested assets at year-end 2014. 100.0% of the Company's bonds are rated as Class 1 (99.7%) or Class 2 (0.3%) by the NAIC. 97.9% of the bond portfolio is comprised of investments maturing between one and ten years. During 2014, the Company realized $2.6 million in net capital gains from fixed income investment disposals.

(Note 2) Common Stocks **$744,002,082**

The common stocks represented 48.4% of invested assets at year-end 2014. The Company's common stocks consist of the 100% ownership of Arch Insurance Group Inc.

(Note 3) Losses **$312,868,869**
Loss Adjustment Expenses **$30,498,374**

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report.

The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2014.

SUBSEQUENT EVENTS

Quota Share Reinsurance Agreements

The Company entered into a Quota Share Reinsurance Agreement with affiliate Arch Reinsurance Limited (ARL), effective January 1, 2015, which replaced part of the similar reinsurance agreement with ARL originally effective January 1, 2003, and described in the Reinsurance section of this report. Pursuant to this new reinsurance agreement, the Company cedes business to ARL on a quota share basis as follows: (a) for U.S. contracts issued by the Company's U.S. operations, 80% of net retained liabilities on personal accident, workers compensation catastrophe, casualty clash-high layer, casualty clash-low layer and mortgage reinsurance; (b) for all other U.S. contracts issued by the Company's U.S. operations, 50% of net retained liabilities. ARL pays a flat ceding commission of 31% to the Company for all U.S. business ceded to ARL under this agreement. ARL's limit of liability on any one loss occurrence is $60.0 million. This agreement was approved by the Delaware Department of Insurance on April 6, 2015.

The Company entered into a Quota Share Reinsurance Agreement with affiliate ARL, effective January 1, 2015, which replaced part of the similar reinsurance agreement with ARL originally effective January 1, 2003, and described in the Reinsurance section of this report. Pursuant to this new reinsurance agreement, the Company cedes business to ARL on a quota share basis as follows: (a) for Canadian contracts issued by the Company's Canadian branch operations, 80% of net retained liabilities on all lines. ARL pays a flat ceding commission of 37% to the Company for all Canadian business ceded to ARL under this agreement. ARL's limit of liability on any one loss occurrence is $175.0 million. This agreement was approved by the Delaware Department of Insurance on April 6, 2015.

The Company entered into a Quota Share Reinsurance Agreement with affiliate Arch Mortgage Guaranty Co. (AMGC) effective January 1, 2015. AMGC cedes and the Company assumes 50% of AMGC premiums and liabilities on a 50% quota share basis. This agreement was approved by the Delaware Department of Insurance on January 5, 2015.

Amended and Restated Investment Manager Agreement

The Company entered into an Amended and Restated Investment Manager Agreement with affiliate AIML effective February 1, 2015, which replaces the 2006 Investment Manager Agreement described earlier in this report. AIML provides investment advisory services to the Company for its investment portfolio, including reconciling accounting, transaction and asset summary data with the custodian reports and communicates and resolves any significant discrepancies with the custodian. The Company settles with AIML quarterly for the provided services. This agreement was approved by the Delaware Department of Insurance on February 5, 2015.

Dividend to Stockholder

The Company's Board of Directors declared a $25.0 million ordinary dividend payable to its stockholder, which was approved by the Delaware Department of Insurance on April 8, 2015, and paid on April 15, 2015.

SUMMARY OF RECOMMENDATIONS

Compliance with Prior Exam Recommendations

The Company re-domesticated from Nebraska to Delaware on September 15, 2014. There was one comment in the Nebraska report as of December 31, 2011: Various custodial agreements were not in compliance with all of the provisions of Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations. The NAIC Handbook and Delaware Department of Insurance provisions for custodial agreements were reviewed without exception. As such, the Company is in compliance.

Current Exam Recommendations

There were no recommendations as a result of this examination.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2011	December 31, 2014	Increase (Decrease)
Assets	$ 1,223,532,816	$ 1,736,857,781	$ 513,324,965
Liabilities	$ 400,593,651	$ 632,905,670	$ 232,312,019
Common Capital Stock	5,000,000	5,000,000	-
Gross Paid In and Contributed Surplus	636,449,130	807,759,607	171,310,477
Unassigned Funds (Surplus)	181,490,035	291,192,504	109,702,469
Total Surplus	$ 822,939,165	$ 1,103,952,111	$ 281,012,946
Totals	$ 1,223,532,816	$ 1,736,857,781	$ 513,324,965

In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor), Andrew Chiodini, CFE and Samuel Kohlmeyer, CFE, participated in the examination.

Respectfully submitted,

Albert M. Piccoli, Sr.

Albert M. Piccoli, Sr., CFE
Examiner-In-Charge
State of Delaware