Submission of Company Footnotes for 3q16

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PROPERTY AND CASUALTY COMPANIES - ASSOCIATION EDITION

QUARTERLY STATEMENT

AS OF SEPTEMBER 30, 2016

OF THE CONDITION AND AFFAIRS OF THE

Arch Insurance Company

NAIC Group Code 1279 (Current) 1279 (Prior) NAIC Company Code 11150 Employer's ID Number 43-0990710

Organized under the Laws of Missouri , State of Domicile or Port of Entry Missouri

Country of Domicile United States of America

Incorporated/Organized 12/15/1971 Commenced Business 12/15/1971

Statutory Home Office 2345 Grand Blvd., Suite 900 (Street and Number) , Kansas City , MO, US 64108 (City or Town, State, Country and Zip Code)

Main Administrative Office Harborside 3, 210 Hudson Street, Suite 300 (Street and Number)

Jersey City , NJ, US 07311-1107 (City or Town, State, Country and Zip Code) , 201-743-4000 (Area Code) (Telephone Number)

Mail Address Harborside 3, 210 Hudson Street, Suite 300 (Street and Number or P.O. Box) , Jersey City , NJ, US 07311-1107 (City or Town, State, Country and Zip Code)

Primary Location of Books and Records Harborside 3, 210 Hudson Street, Suite 300 (Street and Number)

Jersey City , NJ, US 07311-1107 (City or Town, State, Country and Zip Code) , 201-743-4000 (Area Code) (Telephone Number)

Internet Website Address www.archinsurance.com

Statutory Statement Contact Isabel Damasio (Name) , 201-743-4000 (Area Code) (Telephone Number)

idamasio@archinsurance.com (E-mail Address) , 201-743-4005 (FAX Number)

OFFICERS

CHAIRMAN & CHIEF EXECUTIVE OFFICER	DAVID HUGHES McELROY	SENIOR VICE PRESIDENT, GENERAL COUNSEL & SECRETARY	PATRICK KENNETH NAILS
PRESIDENT	JOHN PAUL MENTZ	SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER & TREASURER	THOMAS JAMES AHERN

OTHER

DENNIS ROBERT BRAND, SEVP	WILLIAM JOSEPH CASEY, JR., EVP	JOHN STEPHEN EDACK, SEVP
DAVID MARK FINKELSTEIN, EVP	BRIAN DANN FIRST, EVP	MICHAEL LEE KMETZ, EVP
MARK HANTON LIMA, EVP	PATRICK JOSEPH ROGER MAILLOUX, EVP	KEVIN LEE O'BRIEN, EVP
MARITA ANNE OLIVER, EVP	WILLIAM ALEXANDER PALMER, EVP	MICHAEL DAVID PRICE, EVP
JUSTIN FREDERICK PSAKI, #, EVP	JOHN ANGELO RAFFERTY, EVP	RICHARD LOUIS RICHISKI, EVP
DAVID MARTIN SIESKO, SEVP	RICHARD AMEDEE STOCK, EVP	GLENN ROBERT YANOFF, SEVP

DIRECTORS OR TRUSTEES

THOMAS JAMES AHERN	DENNIS ROBERT BRAND	DAVID HUGHES McELROY
JOHN PAUL MENTZ	PATRICK KENNETH NAILS	MARITA ANNE OLIVER
MICHAEL DAVID PRICE	JOHN ANGELO RAFFERTY	

State of NEW JERSEY
County of HUDSON
SS:

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

JOHN PAUL MENTZ PRESIDENT	PATRICK KENNETH NAILS SENIOR VICE PRESIDENT, GENERAL COUNSEL & SECRETARY	THOMAS JAMES AHERN SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER & TREASURER

Subscribed and sworn to before me this
______ day of ______

a. Is this an original filing? .... Yes [ ] No [X]
b. If no,
1. State the amendment number......... 0001
2. Date filed 11/17/2016
3. Number of pages attached.............. 10

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies and Going Concern

A. Accounting Practices

The accompanying financial statements of Arch Insurance Company (the "Company") have been prepared in conformity with accounting practices prescribed or permitted by the Missouri Department of Insurance (the "Department").

The Department recognizes only statutory accounting practices prescribed or permitted by the State of Missouri for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Missouri Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Missouri. The company currently employs no accounting practices which depart from NAIC SAP.

A reconciliation of the Company's net income and capital surplus between NAIC SAP and practices prescribed and permitted by the State of Missouri is shown below:

	State of Domicile	September 30, 2016	December 31, 2015
NET INCOME			
(1) Arch Insurance Company state basis (Page 4, Line 20, Columns 1 & 2)	MO	$ 41,740,201	$ 52,807,497
(2) State Prescribed Practices that increase/(decrease) NAIC SAP	MO	-	-
(3) State Permitted Practices that increase/(decrease) NAIC SAP	MO	-	-
(4) NAIC SAP (1-2-3=4)	MO	$ 41,740,201	$ 52,807,497
SURPLUS			
(5) Arch Insurance Company state basis (Page 3, Line 37, Columns 1 & 2)	MO	$ 875,384,518	$ 826,539,368
(6) State Prescribed Practices that increase/(decrease) NAIC SAP	MO	-	-
(7) State Permitted Practices that increase/(decrease) NAIC SAP	MO	-	-
(8) NAIC SAP (5-6-7=8)	MO	$ 875,384,518	$ 826,539,368

B. No material changes

C. 1 – 5. No Material Change.

6. Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. The retrospective adjustment method is used to value all securities except for interest-only securities or securities where the yield had become negative, which are valued using the prospective method. In cases where a security has been impaired or if it's rating is"AA" or below the prospective method may also be used.

7 – 13. No material change.

2. Accounting Changes and Corrections of Errors

No material change.

3. Business Combinations and Goodwill

No material change.

4. Discontinued Operations

No material change.

5. Investments

A . -C. No material change.

D. Loan-Backed and Structured Securities

1. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities are provided by BlackRock Financial Management based on loan data.

2. No material change.

3. No material change.

4. All impaired securities (fair value is less than cost or amortized cost) for which an other-than–temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest impairment remains):

a. The aggregate amount of unrealized losses:

1. Less than 12 Months	$	124,066
2. 12 Months or Longer	$	361,759

b. The aggregate related fair value of securities with unrealized losses:

1. Less than 12 Months	$	82,887,697
2. 12 Months or Longer	$	46,966,391

5. All loan-backed and structured securities in an unrealized loss position were reviewed to determine whether an other-than-temporary impairment should be recognized. At September 30, 2016, the Company did not have the intention to sell those securities and determined that it is more likely than not that the Company will not be required to sell the securities before recovery of their cost basis. It is possible that the Company could recognize other-than-temporary impairments in the future on some of the securities held at September 30, 2016 if future events, information or the passage of time causes it to conclude that declines in value are other-than temporary.

NOTES TO FINANCIAL STATEMENTS

E. Repurchase Agreements and/or Securities Lending Transactions

1. Company policy requires that collateral must equal or exceed the fair value of securities purchased under repurchase agreements. Currently, the Company has no repurchase agreements.

The Company participates in a securities lending program as a mechanism for generating additional interest income on its fixed income portfolio. Under the security lending agreement, certain of the Company's fixed income portfolio securities are loaned to third parties, primarily major brokerage firms, for short periods of time through a lending agent. The Company maintains legal control over the securities it lends, retains the earnings and cash flows associated with the loaned securities, and receives a fee from the borrower for the temporary use of the securities. Collateral received, primarily in the form of cash, is required at a rate of 102% and 105% of the fair value of the domestic and foreign currency securities loaned, respectively, including accrued investment income and is monitored and maintained by the custodian bank. The collateral is not available for general use and as such, the Company reported it as an asset and a corresponding liability in the accompanying financial statements.

At September 30, 2016 the fair value and amortized cost of fixed maturities pledged under the security lending agreement were $77,001,940 and $76,759,970, respectively. Cash and security collateral received at September 30, 2016, which is included on the balance sheet, totaled $78,958,027. At September 30, 2016, securities purchased with the cash collateral had a fair value of $0. The Company did not incur any realized gains or losses from its securities lending program in 2016.

At December 31, 2015 the fair value and amortized cost of fixed maturities pledged under the security lending agreement were $144,481,118 and $144,736,137, respectively. Cash and security collateral received at December 31, 2015, which is included on the balance sheet, totaled $148,007,626. At December 31, 2015, securities purchased with the cash collateral had a fair value of $10,800,160. The Company did not incur any realized gains or losses from its securities lending program in 2015.

2. No material change.

3. Collateral Received.

a. Aggregate Amount Collateral Received.

			Fair Value
1.	Repurchase Agreement		
	(a) Open	$	-
	(b) 30 Days of Less		
	(c) 31 to 60 Days		NONE
	(d) 61 to 90 Days		
	(e) Greater Than 90 Days		
	(f) Sub-Total	$	-
	(g) Securities Received		
	(h) Total Collateral Received	$	-
2.	Securities Lending		
	(a) Open	$	-
	(b) 30 Days of Less		
	(c) 31 to 60 Days		
	(d) 61 to 90 Days		
	(e) Greater Than 90 Days		
	(f) Sub-Total	$	-
	(g) Securities Received		78,958,027
	(h) Total Collateral Received	$	78,958,027
3.	Dollar Repurchase Agreement		
	(a) Open	$	-
	(b) 30 Days of Less		
	(c) 31 to 60 Days		NONE
	(d) 61 to 90 Days		
	(e) Greater Than 90 Days		
	(f) Sub-Total	$	-
	(g) Securities Received		
	(h) Total Collateral Received	$	-

b. The fair value of that collateral and of the portion of that collateral that the Company has sold or repledged was $78,958,027.

c. The Company receives cash and U.S government security collateral in an amount in excess of the fair value of the securities loaned. The Company reinvests the cash collateral primarily into high quality short term investments to minimize the risk related to a potential decline in collateral value.

4. No material change.

NOTES TO FINANCIAL STATEMENTS

5. Collateral Reinvestment.

a. Aggregate Amount Collateral Reinvested.

			Amortized Cost	Fair Value
1.	Repurchase Agreement			
(a)	Open	$	-	-
(b)	30 Days of Less			
(c)	31 to 60 Days			
(d)	61 to 90 Days			
(e)	91 to 120 Days			
(f)	121 to 180 Days		NONE	
(g)	181 to 365 Days			
(h)	1 to 2 Years			
(i)	2 to 3 Years			
(j)	Greater Than 3 Years			
(k)	Sub-Total	$	-	-
(l)	Securities Received			
(m)	Total Collateral reinvested	$	-	-
2.	Securities Lending			
(a)	Open	$	-	-
(b)	30 Days of Less			
(c)	31 to 60 Days			
(d)	61 to 90 Days			
(e)	91 to 120 Days			
(f)	121 to 180 Days			
(g)	181 to 365 Days			
(h)	1 to 2 Years			
(i)	2 to 3 Years			
(j)	Greater Than 3 Years			
(k)	Sub-Total	$	-	-
(l)	Securities Received		78,958,027	78,958,027
(m)	Total Collateral reinvested	$	78,958,027	78,958,027
3.	Dollar Repurchase Agreement			
(a)	Open	$	-	-
(b)	30 Days of Less			
(c)	31 to 60 Days			
(d)	61 to 90 Days			
(e)	91 to 120 Days			
(f)	121 to 180 Days			
(g)	181 to 365 Days		NONE	
(h)	1 to 2 Years			
(i)	2 to 3 Years			
(j)	Greater Than 3 Years			
(k)	Sub-Total	$	-	-
(l)	Securities Received			
(m)	Total Collateral reinvested	$	-	-

b. The Company's sources of cash that can be used to fund the collateral returns is dependent upon the liquidity conditions of the current marketplace. Under current conditions, the Company has $1,993.1 million of par value bonds (fair value of $2,107.4 million) that are currently tradable securities that could be sold and used to pay for the $79.0 million in collateral calls that could come due under a worst-case scenario.

F . -G. No material change.

NOTES TO FINANCIAL STATEMENTS

H. Restricted Assets

1. Restricted assets (including pledged) summarized by restricted asset category

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
a. Subject to contractual obligation for which liability is not shown					-		-	-	0.00%	0.00%
b. Collateral held under security lending arrangements	78,958,027				78,958,027	148,007,626	(69,049,599)	78,958,027	2.06%	2.11%
c. Subject to repurchase agreements					-	0	-	-	0.00%	0.00%
d. Subject to reverse repurchase agreements					-	0	-	-	0.00%	0.00%
e. Subject to dollar repurchase agreements					-	0	-	-	0.00%	0.00%
f. Subject to dollar reverse repurchase agreements					-	0	-	-	0.00%	0.00%
g. Placed under option contracts					-	0	-	-	0.00%	0.00%
h. Letter stock or securities restricted as to sale-excluding FHLB capital stock					-	0	-	-	0.00%	0.00%
i. FLHB capital stock					-	0	-	-	0.00%	0.00%
j. On deposit with state	378,009,994				378,009,994	308,427,059	69,582,935	378,009,994	9.87%	10.10%
k. On deposit with other regulatory bodies	1,577,435				1,577,435	1,598,820	(21,385)	1,577,435	0.04%	0.04%
l. Pledged as collateral to FLHB (including assets backing funding agreements)					-	0	-	-	0.00%	0.00%
m. Pledged as collateral not captured in other categories					-	0	-	-	0.00%	0.00%
n. Other restricted assets	42,110,901				42,110,901	44,096,573	(1,985,672)	42,110,901	1.10%	1.13%
o. Total restricted assets	500,656,357	-	-	-	500,656,357	502,130,078	(1,473,720)	500,656,357	13.07%	13.38%

(a) Subset of column 1
(b) Subset of column 3

2. Detail of assets pledged as collateral not captured in other categories (reported on line m above)

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Collateral Agreement	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Reinsurance	0				-		-	-	0.00%	0.00%
					NONE					
Total	-				-		-	-	0.00%	0.00%

3. Detail of other restricted assets (reported on line n above)

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Other Restricted Assets	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Short Term Investments	33,563,387				33,563,387	32,918,169	645,218	33,563,387	0.88%	0.90%
Cash	8,547,514				8,547,514	11,178,404	(2,630,890)	8,547,514	0.22%	0.23%
Total	42,110,901				42,110,901	44,096,573	(1,985,672)	42,110,901	1.10%	1.13%

NOTES TO FINANCIAL STATEMENTS

I. Working Capital Finance Investments

(2.-3.) None.

J. Offsetting and Netting of Assets and Liabilities

None.

K. No material changes.

6. Joint Ventures, Partnerships and Limited Liability Companies

No material changes.

7. Investment Income

No material changes.

8. Derivative Instruments

No material changes

9. Federal Income Taxes

A. The components of the net deferred tax asset/liability at September 30 are as follows:

1.

	9/30/2016			12/31/2015			Change		
	(1) Ordinary	(2) Capital	(3) (Col 1+2) Total	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total	(7) (Col 1-4) Ordinary	(8) (Col 2-5) Capital	(9) (Col 7+8) Total
(a) Gross Deferred Tax Assets	$ 113,206,094	$ 61,671	$ 113,267,765	$ 104,366,642	$ 447	$ 104,367,089	$ 8,839,452	$ 61,224	$ 8,900,676
(b) Statutory Valuation Allowance Adjustments			-			-	-	-	-
(c) Adjusted Gross Deferred Tax Assets (1a-1b)	113,206,094	61,671	113,267,765	104,366,642	447	104,367,089	8,839,452	61,224	8,900,676
(d) Deferred Tax Assets Nonadmitted	51,087,774	61,671	51,149,445	49,454,167	447	49,454,614	1,633,607	61,224	1,694,831
(e) Subtotal Net Admitted Deferred Tax Asset (1c-1d)	62,118,320	-	62,118,320	54,912,475	-	54,912,475	7,205,845	-	7,205,845
(f) Deferred Tax Liabilities	569,388	-	569,388	354,437	344	354,781	214,951	(344)	214,607
(g) Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) (1e-1f)	$ 61,548,932	$ -	$ 61,548,932	$ 54,558,038	$ (344)	$ 54,557,694	$ 6,990,894	$ 344	$ 6,991,238

2.

Admission Calculation Components SSAP No. 101	9/30/2016			12/31/2015			Change		
	(1) Ordinary	(2) Capital	(3) (Col 1+2) Total	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total	(7) (Col 2-5) Ordinary	(8) (Col 1-4) Capital	(9) (Col 7+8) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks	$ 49,065,023	$ 7,199,071	$ 56,264,094	$ 51,199,550	$ 3,358,145	$ 54,557,695	$ (2,134,527)	$ 3,840,926	$ 1,706,399
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	12,483,907	(7,199,071)	5,284,836	3,358,145	(3,358,145)	(0)	9,125,762	(3,840,926)	5,284,836
1. Adjusted Gross Deferred Tax Assets Expected To Be Realized Following the Balance Sheet Date	61,548,930	-	61,548,930	54,557,695	-	54,557,695	6,991,235	-	6,991,235
2. Adjusted Gross Deferred Tax Assets Allowed Per Limitation Threshold	XXX	XXX	81,498,809	XXX	XXX	75,922,080	XXX	XXX	5,576,729
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount of Deferred Tax Assets From 2(a) & 2(b) above) Offset by Gross Deferred Tax Liabilities	569,388	-	569,388	354,437	344	354,781	214,951	(344)	214,607
(d) Deferred Tax Assets Admitted as the result of application of SSAP No.101 Total 2(a)+2(b)+2(c)	$ 62,118,318	$ -	$ 62,118,318	$ 54,912,132	$ 344	$ 54,912,476	$ 7,206,186	$ (344)	$ 7,205,842

3.

	2016	2015
(a) Ratio Percentage Used To Determine Recovery Period & Threshold Limitation Amount	278%	263%
(b) Amount of Adjusted Capital & Surplus Used To Determine Recovery Period & Threshold Limitation in 2(b)2 Above	$814,988,093	$759,220,801

4.

Impact of Tax Planning Strategies	9/30/32016		12/31/2015		Change	
	(1) Ordinary	(2) Capital	(3) Ordinary	(4) Capital	(5) (Col 1-3) Total	(6) (Col 2-4) Total
(a) Determination of Adjusted Gross Deferred Tax Assets and Net Admitted Deferred Tax Assets, By Tax Character as a Percentage						
1. Adjusted Gross DTAs Amount From Note 9A1(c)	$ 113,206,094	$ 61,671	$ 104,366,642	$ 447	$ 8,839,452	$ 61,224
2. Percentage of Adjusted Gross DTAs by Tax Character Attributable to the Impact of Tax Planning Strategies	0%	0%	0%	0%	0%	0%
3. Net Admitted Adjusted Gross DTAs Amount from Note 9A1(e)	$ 62,118,320	$ (0)	$ 54,912,475	$ (0)	$ 7,205,845	$ -
4. Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because of The Impact of Tax Planning Strategies	0%	0%	0%	0%	0%	0%

(b) Does the Company's tax-planning strategies include the use of reinsurance ? No

B. Deferred Tax Liabilities Not Recognized - None

NOTES TO FINANCIAL STATEMENTS

C. Current income taxes incurred consist of the following major components:

1. Current Income Tax	(1) 9/30/2016	(2) 12/31/2015	(3) (Col 1-2) Change
(a) Federal	$ 21,012,747	$ 28,052,276	$ (7,039,529)
(b) Foreign (including foreign tax on capital gains)	102,469	84,964	17,505
(c) Subtotal	21,115,216	28,137,240	(7,022,024)
(d) Federal income taxes on net capital gains	5,710,881	1,488,190	4,222,691
(e) Utilization of capital loss carry-forwards		-	-
(f) Prior year under accrual (over accrual)	-	(4,059,404)	4,059,404
(g) Federal and foreign income taxes incurred	$ 26,826,097	$ 25,566,026	$ 1,260,071
2. Deferred Tax Assets:			
(a) Ordinary			
(1) Unearned premium reserve	$ 27,599,387	$ 26,429,724	$ 1,169,663
(2) Deferred ceding commission	29,266,449	25,362,977	3,903,472
(3) Loss reserves	40,505,300	38,653,243	1,852,057
(4) Nonadmitted assets	13,278,373	11,540,623	1,737,750
(5) Bad debt	408,445	375,008	33,437
(6) Dividends to policyholders	825,737	721,013	104,724
(7) Intangible Asset	1,322,403	1,284,054	38,349
(8) Net unrealized foreign exchange gains (losses)		-	-
Subtotal (99)	113,206,094	104,366,642	8,839,452
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	51,087,774	49,454,167	1,633,607
(d) Admitted ordinary deferred tax assets (2a99-2b-2c)	62,118,320	54,912,475	7,205,845
(e) Capital			
(1) OTTI on securities	379	447	(68)
(2) Net unrealized gains (losses) on investments	61,292	-	61,292
Subtotal (99)	61,671	447	61,224
(f) Statutory valuation allowance adjustment			
(g) Nonadmitted	61,671	447	61,224
(h) Admitted capital deferred tax assets (2e99-2f-2g)	-	-	-
(i) Admitted deferred tax assets (2d+2h)	$ 62,118,320	$ 54,912,475	$ 7,205,845
3. Deferred Tax Liabilities:			
(a) Ordinary			
(1) Investment related	425,736	210,785	214,951
(2) Net unrealized gains (losses) on investments	-	344	(344)
(3) Net unrealized foreign exchange (gains) losses	143,652	143,652	-
(4) Other	-	-	-
Subtotal (99)	569,388	354,781	214,607
(b) Capital			
Subtotal (99)			
(c) Deferred tax liabilities (3a99+3b99)	569,388	354,781	214,607
4. Net deferred tax assets/(liabilities) (2i-3c)	$ 61,548,932	$ 54,557,694	$ 6,991,238

The change in net deferred income tax is comprised of the following (this analysis is exclusive of nonadmitted assets as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement):

	9/30/2016	12/31/2015	Change
Gross deferred tax assets	$ 113,267,765	$104,367,089	$ 8,900,676
Gross deferred tax liabilities	569,388	354,781	214,607
Net deferred tax assets/(liabilities)	$ 112,698,377	$104,012,308	8,686,069
Tax effect of foreign exchange unrealized gains (losses)			-
Tax effect of unrealized gains (losses) on investments			(61,636)
Change in net deferred income tax			$ 8,624,433

NOTES TO FINANCIAL STATEMENTS

D. The provision for Federal and Foreign income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before taxes. The significant items causing this difference are as follows:

	Amount	Tax Effect 35%	Effective Tax Rate
Net Income before taxes per statement of income	$ 62,855,417		
Federal Tax expense on realized gains	5,710,881		
Net Income before taxes	68,566,298	23,998,205	35.0%
Tax exempt income net of proration	(11,986,627)	(4,195,319)	-6.1%
Non deductible expenses	390,080	136,528	0.2%
Prior year (over accrual) under accrual	-	-	0.0%
Change in other nonadmitted asset	(4,965,002)	(1,737,750)	-2.5%
Total	$ 52,004,749	$ 18,201,664	26.5%
Federal and foreign income taxes incurred		26,826,097	39.1%
Change in net deferred income tax		(8,624,433)	-12.6%
Total statutory income taxes		$ 18,201,664	26.5%

E. At September 30, 2016

(1) The Company had no operating loss carryforwards or net capital loss carryforwards.

(2) Income taxes incurred in 2016 and 2015 of $26,723,628 and $29,540,466 respectively, will be available for recoupment in the event of future net losses.

(3) The Company has no deposits admitted under Section 6603 of the Internal Revenue Service Code.

F. The Company files its Federal income tax return as part of a consolidated group with the following companies:

Arch Capital Group (U.S.) Inc. (Parent of Tax Group)
Arch Excess & Surplus Insurance Company
Arch Insurance Company
Arch Insurance Group Inc.
Arch Indemnity Insurance Co.
Arch Insurance Solutions Inc.
Arch US MI Services Inc.
Arch Mortgage Guaranty Company
Arch Mortgage Reinsurance Company
Arch Reinsurance Company
Arch Re Facultative Underwriters Inc.
Arch Specialty Insurance Agency Inc.
Arch Specialty Insurance Company
First American Service Corporation
Arch US MI Holdings Inc.
Arch Mortgage Insurance Company
Arch Mortgage Assurance Company
Arch Fulfillment Operations Inc.

The Company participates in a tax sharing agreement with Arch Capital Group U.S. Inc (“Arch Capital U.S.”). Under this agreement, the Company’s taxes are computed as if it filed a separate tax return. In addition, the Company will receive a current benefit for any of its net operating losses or other items that are utilized within the Arch Capital U.S. consolidated Federal income tax return.

G. The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

10. Information Concerning Parent, Subsidiaries and Affiliates

No material change.

11. Debt

A. No material change.

B. The Company has no Federal Home Loan Bank agreements.

12. Retirement Plans, Deferred Compensation, and Other Postretirement Plans

No material change.

A. (4) None.

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

No material change.

14. Liabilities, Contingencies and Assessments

No material change.

15. Leases

No material change.

16. Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk

No material change.

NOTES TO FINANCIAL STATEMENTS

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

A. No material change.

B. 2. None.

4. (a-b) None.

C. The Company had no wash sales.

18. Gain or Loss to the Insurer from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

No material change.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

No material change.

20. Fair Value Measurements

A. 1. Inputs used for Assets and Liabilities Measured at Fair Value

The Company has categorized its assets and liabilities that are measured at fair value into the three-level fair value hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

Level 1 – Quoted Prices in Active Markets for Identical Assets and Liabilities: The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as level 1. The Company has no assets or liabilities measured at fair value in this category.

Level 2 – Significant Observable Inputs: This category for items measured at fair value on a recurring basis includes bonds, which are not exchange-traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets which were not considered actively traded. The Company has assets measured at fair value in this category.

Level 3 – Significant Unobservable Inputs: The Company has no assets or liabilities measured at fair value in this category.

(1)	2	3	4	5
scription for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total
a. Assets at fair value				
Bonds				
Political Subdivisions of States	$ -	$ 1,394,235	$ -	$ 1,394,235
Total Bonds	$ -	$ 1,394,235	$ -	$ 1,394,235
Common Stock				
Parent, Subsidiaries and Affiliates	$ -	$ -	$ -	$ -
Total Common Stocks	$ -	$ -	$ -	$ -
Total assets at fair value	$ -	$ 1,394,235	$ -	$ 1,394,235
b. Liabilities at fair value				
Derivatives liabilities	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

2. Rollforward of Level 3 items

The Company has no assets or liabilities measured at fair value in the Level 3 category.

Description	Balance January 1, 2016	Transfer into Level 3	Transfer out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Balance September 30, 2016
a. Assets										
Bonds										
Issuer obligations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial MBS	-	-	-	-	-	-	-	-	-	-
Preferred stocks										
Perpetual	-	-	-	-	-	-	-	-	-	-
Common stocks										
Industrial	-	-	-	-	-	-	-	-	-	-
Subsidiary	-	-	-	-	-	-	-	-	-	-
Mutual funds	-	-	-	-	-	-	-	-	-	-
Other Invested Assets										
Certified Capital Companies	403,159	-	-	-	-	-	-	-	(180,494)	222,665
Total assets	$ 403,159	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (180,494)	$ 222,665
b. Liabilities										
Derivatives	-	-	-	-	-	-	-	-	-	-
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

3. Policy Transfers out of Level 3 items

No material change

NOTES TO FINANCIAL STATEMENTS

4. Inputs and techniques used for Level 2 and Level 3 Fair Values

Bonds carried at fair value categorized as Level 2 were valued using a market approach. These valuations were determined to be Level 2 valuations as quoted market prices for similar instruments in an active market were utilized. This was accompanied by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status ad call and sinking fund features.

The Company reported no assets or liabilities other than the following level 2 security that is reported at fair value as a result of its NAIC 3 rating.

Ohio St Wtr Dev Auth, in the amount of $1,394,235 at September 30, 2016, with unrealized losses of $175,119. This security is currently rated “BB-” by S&P.

5. Derivative Fair Values

No material change

B. Other Fair Value Disclosures

No material change

C. Fair Values for all Financial Instruments by Levels 1, 2 and 3

The table below reflects the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method (subsidiaries). The fair values are also categorized into the three-level fair value hierarchy as described in Note 20A.

Type of Financial Instrument	Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Financial instruments - assets						
Bonds	$ 2,469,310,768	$ 2,432,223,985	$ -	$ 2,469,310,768	$ -	$ -
Common stock	-		-	-	-	-
Cash, cash equivalents and short-term investments	150,067,130	150,067,130	150,067,130	-	-	-
Other invested assets	222,665	222,665	-	-	222,665	-
Other - Receivable for securities	3,304,622	3,304,622	3,304,622	-	-	-
Securities lending reinvested collateral assets	78,958,027	78,958,027	-	78,958,027	-	-
Total assets	$ 2,701,863,212	$ 2,664,776,429	$ 153,371,752	$ 2,548,268,795	$ 222,665	$ -
Financial instruments - liabilities						
Payable for securities	$ 30,210,004	$ 30,210,004	$ 30,210,004	$ -	$ -	$ -
Payable for securities lending	78,958,027	78,958,027	-	78,958,027	-	-
Total liabilities	$ 109,168,031	$ 109,168,031	$ 30,210,004	$ 78,958,027	$ -	$ -

D. Financial Instruments for which not Practicable to Determine Fair Values

No material change

21. Other Items

No material change.

22. Events Subsequent

No material change.

23. Reinsurance

No material change.

E. Commutation of Ceded Reinsurance

The Company has reported in its operations in the current year as a result of commutations of reinsurance with the companies listed below, amounts are reflected as:

(1)	Losses Incurred	$ 5,563,134
(2)	Loss adjustment expenses incurred	1,055,491
(3)	Premiums earned	-
(4)	Other	-
		$ 6,618,625

(5)	Company	
	IHOP of San Diego	$ 642,043
	PHFE Management Solutions	2,071,533
	Guy Evans	3,353,765
	Oak Property & Casualty, LLC	551,283
		$ 6,618,625

24. Retrospectively Rated Contracts and Contracts Subject to Re-determination

F. None.

25. Changes in Incurred Losses and Loss Adjustment Expenses

The company experienced unfavorable development in net incurred loss and loss adjustment expenses of $6,380,690 in 2016 compared to favorable development on prior years of $(1,567,582) in 2015. In the current period, the unfavorable development was driven by Commercial Auto – Other Liability. In the prior period, the unfavorable development was driven by Other Liability – Claims Made.

NOTES TO FINANCIAL STATEMENTS

26. Intercompany Pooling Arrangements

    No material change.

27. Structured Settlements

    No material change.

28. Health Care Receivables

    No material change.

29. Participating Policies

    No material change.

30. Premium Deficiency Reserves

    No material change.

31. High Deductibles

    No material change.

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

    No material change.

33. Asbestos/Environmental Reserves

    No material change.

34. Subscriber Savings Accounts

    No material change.

35. Multiple Peril Crop Insurance

    No material change.

36. Financial Guaranty Insurance

    No material change.

    B. None.