Amended to correct amounts, formatting issues and detail disclosures.

Arch Indemnity Insurance Company
Management's Discussion and Analysis
Year Ended December 31, 2016
NAIC Group Code 1279   NAIC Company Code 30830

General Overview

Arch Indemnity Insurance Company (the "Company") is domiciled in Missouri and has licenses in 49 states and the District of Columbia. The Company is a wholly owned subsidiary of AES, a Missouri Company which in turn, through additional intermediary entities, is wholly owned by Arch Capital Group Ltd. ("ACGL"), a Bermuda public limited liability company with $10.49 billion in capital at December 31, 2016, provides insurance, reinsurance and mortgage insurance on a worldwide basis through its wholly owned subsidiaries. ACGL, classifies its businesses into three underwriting segments insurance, reinsurance and mortgage, insurance and reinsurance on a worldwide basis through its wholly-owned subsidiaries. The insurance segment currently consist of twelve product lines: (1) casualty (including excess, umbrella and railroad), (2) programs, (3) property and energy, (4) executive assurance (including, but not limited to, financial and commercial institution directors' and officers' liability and errors and omissions coverage), (5) healthcare, (6) professional liability (including, but not limited to, architects and engineers, large law and accounting firms and other professional programs), (7) construction, (8) surety, (9) national accounts casualty, (10)accident and health, (11) travel and accident and (12) other (including but not limited to collateralized protection business, other lenders products and excess workers' compensation) The Company is not currently writing in any of these product lines.

The Company is focused on writing workers compensation in New York. It is management's belief that the existing underwriting platform, a strong management team, and capital that is unencumbered by significant exposure to pre-2002 risks have enabled the Company to establish a strong presence in the insurance marketplace.

The insurance industry is highly competitive and has traditionally been subject to an underwriting cycle in which a hard market (high premium rates, restrictive underwriting standards and underwriting gains) is eventually followed by a soft market (low premium rates, relaxed underwriting standards and underwriting losses). Insurance market conditions may affect, among other things, the demand for our products, our ability to increase premium rates, the terms and conditions of the insurance policies we write, changes in the products offered by us, and changes in our business strategy

Prospective Information

In 2016 the Company is continuing to expand the approval to write workers' compensation to three additional states including California, New York, Texas, Kentucky and Missouri in 2016. The Company is not aware of any demands, commitments, events or uncertainties that will affect the Company's liquidity positively or negatively.

Material Changes in General

The Company had no material changes that are not already addressed elsewhere in this discussion and analysis in 2016 and 2015.

Financial Position

Assets

Total admitted assets increased by $13.3 million to $81.1 million at December 31, 2016 from $67.8 million at December 31, 2015. Cash and invested assets totaled $67.2 million (82.9% of admitted assets) compared with $50.9 million (75.1% of admitted assets) in 2015, an increase of $16.3 million. The increase was principally the result of positive cash flow.

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Based on the fluctuation in desirability of the securities within our portfolio the securities lending balances decreased $4.1 million during 2016.

Premium receivables increased $7.7 million is due to deferrable premium writings.

Receivable from parent, subsidiaries and affiliates decrease $12.7 to zero due to the timing of settlement of balances between affiliates.

The Company's investment guidelines stress preservation of capital, market liquidity, and diversification of risk. Notwithstanding the foregoing, our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities.

At December 31, 2016 and 2015, all of the Company's fixed maturity and short-term investments were rated investment grade by Standard & Poor's ("S&P") and had an average S&P rating of "AA+", an average duration of 3.31 and 3.59 years, respectively, and yield to maturity of 1.75 % and 1.68 %, respectively.

The following table summarizes the amortized cost and estimated fair value of our bond and short-term investment portfolios:

	Dec. 31, 2016		Dec. 31, 2015	
(In Thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Governments and government agencies	$ 14,089	$ 14,119	$ 15,721	$ 15,960
States, territories and possessions	965	927	1,018	1,020
Political subdivisions of states	7,804	7,665	2,368	2,390
Industrial bonds	7,092	7,018	7,498	7,437
Special revenue obligations	12,190	12,024	5,727	5,765
Total	**$ 42,140**	**$ 41,753**	**$ 32,332**	**$ 32,572**

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The bond and short-term investment portfolios are currently structured to provide a high level of liquidity. The table below shows the contractual maturities of these portfolios:

	Dec. 31, 2016		Dec. 31, 2015	
(In Thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 253	$ 258	$ 1,380	$ 1,396
Due after one year through five years	31,368	31,186	19,725	19,957
Due after five years through 10 years	6,950	6,779	6,683	6,711
	38,571	38,223	27,788	28,064
Mortgage and asset backed securities	3,569	3,530	4,544	4,508
Total	**$ 42,140**	**$ 41,753**	**$ 32,332**	**$ 32,572**

The following table summarizes gross unrealized investment losses on loan-backed and structured securities by the length of time that securities have continuously been in an unrealized loss position for the year ended December 31, 2016:

	Less than 12 months Unrealized		12 months or Longer Unrealized		Total Unrealized	
(In Thousands)	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Single class mortgage-backed securities	$ -	$ -	$ -	$ -	$ -	$ -
Multi-class residential mortgage-backed securities	153	-	-	-	153	-
Multi-class commercial mortgage-backed/asset backed securities	1,889	(29)	299	(14)	2,188	(43)
TOTAL	**$ 2,042**	**$ (29)**	**$ 299**	**$ (14)**	**$ 2,341**	**$ (43)**

Liabilities

Total liabilities increased to $51.9 million at December 31, 2016 from $41.8 million at December 31, 2015, primarily due to an increase of $5.4 million in ceded balances payable, deferred ceding commission of $2.6 million, $2.4 million of taxes, licenses and fees, $2.2 million in amounts withheld or retained on account of others partially offset by a decrease in Securities lending of 4.1 million.

Ceded balances payable increase of $5.4 million is due to the timing of the settlement of balances on our 100% quota share agreement with its affiliate, Arch Insurance Company.

Deferred ceding commissions increased $2.6 million due to higher ceded unearned premium.

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Taxes, licenses and fees increase of $2.4 million in direct proportion the increase in direct writings.

Amount withheld on account of other increased $2.2 million due to cash collateral received on the construction book of business.

Based on the fluctuation in desirability of the securities within our portfolio the securities lending balances decreased $4.1 million during 2016.

Reserves for losses and loss adjustment expenses represent the estimated ultimate net cost of all reported and unreported losses incurred but not yet paid, including anticipated salvage and subrogation and deductibles on certain policies. These reserves are estimated using the expected loss ratio method and statistical analyses and are not discounted. Those estimates are subject to the effects of trends in loss severity and frequency, and variability is inherent in such estimates. The methods of determining such estimates and establishing reserves are continually reviewed and updated by the Company. Any resulting adjustments in the evaluation of these reserves are reflected in current operations. The Company has established the reserve for losses and loss adjustment expenses based upon an analysis of the book of business on an accident year basis. Loss and loss adjustment expense reserves were $972,426 and $525,189 at December 31, 2016 and 2015, respectively.

The following table provides a reconciliation of the beginning and ending loss and loss adjustment expense reserves, net of reinsurance, for the year ended December 31(in thousands):

	2016	2015
Reserve for losses and loss adjustment expenses, net of reinsurance of $18,717.1 and $10,078 at January 1,	$ 525.1	$ 338.9
Add incurred losses and loss adjustment expenses related to:		
Current year	1,056.4	470.5
Prior years	0.6	4.0
Total incurred	1,057.0	474.5
Deduct paid losses and loss adjustment expenses related to:		
Current year	557.6	231.5
Prior years	52.2	56.7
Total paid	609.8	288.2
Reserve for losses and loss adjustment expenses, net of reinsurance of $38,896.9 and $18,717.1 at December 31,	**$ 972.4**	**$ 525.1**

The company experienced unfavorable development in net incurred loss and loss adjustment expenses of $604 thousand in 2016 compared to unfavorable development of $4,018 thousand in 2015.

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Capital and Surplus

Policyholders' surplus is $29.1 million at December 31, 2016, an increase of $3.1 million from $26.0 million at December 31, 2015. This is principally as a result of a net income of $2.4 million, deferred tax benefit of $0.9 million.

Results of Operations

The Company reported net income of $2.4 million and $0.9 million in 2016 and 2015, respectively. This increase is primarily due to higher ceding commission on a 100 % ceded book of business of $3.3 million partially offset by Federal income tax increase of $1.4 million.

Cash Flow and Liquidity

The total cash flow for the year was an inflow of $10.2 million resulting in a balance of $23.7 million as of December 31, 2016, compared with an inflow of $7.3 million and a balance of $13.4 million as of December 31, 2015.

The Company had an inflow of cash from operations of $3.6 million in 2016 compared to $8.0 million in 2015. This decrease of $4.4 million is primarily due to higher settlement of reinsurance premiums net of commissions

The Company's cash outflow from investments decreased to $6.2 million in 2016 from $14.2 million in 2015. This was primarily due to a decrease in purchases of bonds year over year within the fixed income portfolio.

The Company has no long term debt or commitments.

The Company has no known demands, commitments, events or uncertainties that will result in the Company's liquidity to increase or decrease, materially.

The Company has no known material trends in its capital resources.

The Company has no debt refinancing or redemptions.

The Company is highly liquid, with cash and cash equivalents totaling $ 23.7 million. The Company believes this is adequate resources to meet cash needs. The Company's fixed maturity portfolio at December 31, 2016 and 2015 has maturities of 5 years or less for 83.37% and 78.95% of the portfolio, respectively.

At December 31, 2016 and 2015 the Company's Authorized Control Level Risk-Based Capital was $200,959 and $407,458 respectively compared with surplus of $29.1 million and $26.0 million, respectively.

High Yielding Financing, High-Risk Investments and Other Unusual Transactions

The Company does not participate in any high yielding financing, invest in any high-risk investment or participate in any unusual transactions.

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Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that haven't been disclosed elsewhere in this document.

Preliminary Merger/Acquisition Negotiations

The Company does not have any Merger or Acquisition negations at the balance sheet date.