CERTIFICATION

June 28, 2013

I, Bruce R. Ramge, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of

Arch Excess and Surplus Insurance Company

as of

December 31, 2011

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 28 2013

FILED

GREAT SEAL OF THE STATE OF NEBRASKA
EQUALITY BEFORE THE LAW
MARCH 1ST 1867

Bruce R. Ramge

DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

ARCH EXCESS & SURPLUS INSURANCE COMPANY

as of

December 31, 2011

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Jersey City, New Jersey
May 2, 2013

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg #69-2
Cranston, Rhode Island 02920

Honorable John M. Huff
Chair, Midwestern Zone, NAIC
Director of Insurance
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sirs:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

ARCH EXCESS & SURPLUS INSURANCE COMPANY

which has its Statutory Home Office located at

10909 Mill Valley Road
Omaha, Nebraska 68145

with its Principal Executive Office located at

300 Plaza Three, 3rd Floor
Jersey City, New Jersey 07311

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2007 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2011, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska and Missouri participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates, Arch Insurance Company, Arch Specialty Insurance Company, and Arch Indemnity Insurance Company.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statues. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Missouri Department of Insurance as the coordinating state. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company’s method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by PricewaterhouseCoopers LLP, the Company’s external auditors, during their audit of the Company’s accounts for the years ended December 31, 2010 and 2011. Portions of the auditor’s workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Nebraska Department of Insurance approved the Articles of Incorporation of Guard Hill Insurance Company, the Company, on July 2, 1998 and these Articles were filed with the Nebraska Secretary of State on that same date. The Articles of Incorporation state that the

Company was established for the purpose of writing all types of insurance and reinsurance with the exception of life insurance, variable life insurance, variable annuities and title insurance; to transact any and all lawful business for which a Nebraska stock insurer may be incorporated as currently provided or as may be provided by subsequent legislative acts; and to operate an excess and surplus lines insurance company in jurisdictions outside of the state of Nebraska where it is legally permissible and where the company deems appropriate.

On October 2, 1998, the Board of Directors of Guard Hill Insurance Company resolved to amend its Articles of Incorporation to change the name of the Company to Cross River Insurance Company. This amendment was approved by the Nebraska Department of Insurance and was filed with the Nebraska Secretary of State on October 13, 1998.

The Board of Directors again resolved to amend its Articles of Incorporation to change the name of the Company to Arch Excess & Surplus Insurance Company, its current name. This amendment was approved by the Nebraska Department of Insurance and was filed with the Nebraska Secretary of State on August 1, 2002.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the ‘Ultimate Controlling Person”, as reported in the 2011 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Arch Capital Group Ltd.
- Arch Reinsurance Ltd.
  - Arch Financial Holdings Europe I Ltd.
    - Arch Capital Group (U.S.) Inc. (81%)
  - Arch Financial Holdings Europe II Ltd.
    - Arch Reinsurance Europe Underwriting Limited
      - Arch Capital Group (U.S.) Inc. (19%)
        - Arch Reinsurance Company
          - Arch Insurance Group Inc.
            - Arch Insurance Company
              - Arch Specialty Insurance Company
              - Arch Excess & Surplus Insurance Company
                - Arch Indemnity Insurance Company

Shareholder

The Company's Articles of Incorporation state that, "the aggregate numbers of shares which the Company shall have the authority to issue is 1,000,000 shares, consisting of only common stock, with a par value of $5.00 per share." As of December 31, 2011, all 1,000,000 shares were outstanding in the name of Arch Insurance Company, a Missouri domiciled insurance company. The capital structure consists of $5,000,000 of common capital stock and $35,836,200 of paid-in and contributed surplus.

The Company has not paid any dividends during the current financial condition examination.

Board of Directors

The Company's Articles of Incorporation and By-Laws provide that the property and business of the Company shall be managed by its Board of Directors, the number which shall be between five (5) and twenty-one (21), as determined, from time to time, by the Board of Directors. The Shareholders shall elect Directors to hold office until the next succeeding annual meeting. The By-Laws also require that at least one third of the Directors shall be persons who are not Officers or employees of the Company or any entity controlling, controlled or under common control of the Company and who are not beneficial owners of a controlling interest in the voting stock of the Company or any such entity; provided, however, that the Board composition requirement shall not apply to the Company if the Company is a member of a holding company system and the person controlling the Company has a Board of Directors that meets the Board composition requirement. The Company is a member of Arch Capital Group Ltd. and its Board of Directors meets this requirement.

Members of the Board of Directors serving the Company at December 31, 2011, were as follows:

Name and Residence	**Principal Occupation**
Thomas J. Ahern Ridgewood, New Jersey	Senior Vice President, Chief Financial Officer, and Treasurer, Arch Insurance Company and subsidiaries
Dennis R. Brand Harvard, Illinois	Senior Executive Vice President and Chief Administrative Officer, Arch Insurance Company and subsidiaries
John S. Edack Oakland, California	Senior Executive Vice President – Casualty, Arch Insurance Company and subsidiaries
Lawrence F. Harr Omaha, Nebraska	Partner of Law Firm, Lamson, Dugan & Murray
Mark D. Lyons Deer Park, Illinois	Chairman, Chief Executive Officer, and President Arch Insurance Company and subsidiaries
David H. McElroy West Simsbury, Connecticut	Senior Executive Vice President – Financial & Professional Liability Group, Arch Insurance Company and subsidiaries
Michael R. Murphy Short Hills, New Jersey	Senior Executive Vice President – Property & Casualty Group, Arch Insurance Company and subsidiaries
Martin J. Nilsen Rockville Center, New York	Senior Vice President, General Counsel, Chief Compliance Officer, and Secretary, Arch Insurance Company and subsidiaries

Officers

The By-Laws provide that, "the Officers of the Corporation shall consist of (i) Chairman, (ii) a President, (iii) one or more Vice Presidents (the number thereof, if any, to be determined by the Board), (iv) a Treasurer, (v) a Controller and (vi) a Secretary, and such other Officers as may be elected or appointed by the Board." "The Chairman, the President, the Treasurer, the Controller and the Secretary of the Corporation shall be elected at the annual meeting of the Board, or as soon thereafter as convenient, and vacancies may be filled at any meeting of the Board. The Vice Presidents may be elected by the Board or appointed by the President with the consent of the Board."

Senior Officers of the Company duly elected and serving at December 31, 2011 were as follows:

Name	**Title**
Mark D. Lyons	Chairman, Chief Executive Officer, and President [(1)]
Dennis R. Brand	Senior Executive Vice President and Chief Administrative Officer
John S. Edack	Senior Executive Vice President, Casualty
David H. McElroy	Senior Executive Vice President – Financial & Professional Liability Group
Michael R. Murphy	Senior Executive Vice President – Property & Casualty Group [(1)]
Mark G. Wade	Senior Executive Vice President, Chief Claims Officer
William J. Casey, Jr.	Executive Vice President, Chief Marketing Officer
David M. Finkelstein	Executive Vice President, Surety
Lyle S. Hitt	Executive Vice President, Professional Liability
Mark Lima	Executive Vice President, Southeast Region Branch Administrator
Roy G. Mahlstedt	Executive Vice President, Programs
John P. Mentz	Executive Vice President, National Accounts, Construction, and Alternative Markets
Steven D. Nelson	Executive Vice President, Healthcare
William A. Palmer	Executive Vice President, Midwest Region Branch Administrator
John A. Rafferty	Executive Vice President, Executive Assurance
Richard L. Richiski	Executive Vice President, Accident and Health
Thomas J. Ahern	Senior Vice President, Chief Financial Officer, and Treasurer
Martin J. Nilsen	Senior Vice President, General Counsel, Chief Compliance Officer, and Secretary [(2)]
Patrick Nails	Senior Vice President and Assistant Secretary [(2)]

[1] Mark Lyons was promoted to Executive Vice President and Chief Financial Officer of Arch Capital Group Ltd. during the third quarter of 2012. Michael Murphy replaced Mark Lyons as President.

[2] Patrick Nails replaced Martin Nilsen as General Counsel and Chief Compliance Officer during the first quarter of 2012.

Committees

Pursuant to the Company's By-Laws, "the Board may, by resolution adopted by a majority thereof, designate one or more committees comprised solely of members of the Board, and each of which shall consist of at least three (3) members." "To the extent authorized by the Board, such committees shall have and may exercise all authority of the Board." The By-Laws also state that the Company shall have an Executive Committee and an Investment & Finance Committee. Any other management committees may be designated by the Chairman, the President, or the Board in order to address one or more specific or general tasks for the purpose of assisting the Chairman, the President, or the Board in carrying out their respective duties. These other management committees need not include Directors as members.

The Executive Committee is no longer promulgated as a Board Committee.

Members serving on the Company's Investment & Finance Committee at December 31, 2011 were as follows:

Thomas J. Ahern	Mark D. Lyons
Dennis R. Brand	Martin J. Nilsen
David H. McElroy	

The Company's Board of Directors designated the Arch Capital Group Ltd. Audit Committee to act as its Audit Committee. The Audit Committee's charter states, "the primary purpose of the Audit Committee is to assist the Board of Directors in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's internal audit function and independent auditors and (4) the compliance by the Company with legal and regulatory requirements."

TRANSACTIONS WITH AFFILIATES

Service Agreement

The Company entered into a Service Agreement on April 1, 2003, as amended on November 16, 2004, and further amended on September 4, 2008, with the intent to have its indirect parent, Arch Insurance Group Inc. (AIGI), a Delaware corporation, provide the Company with support services related to all phases of the Company's insurance business and operations, including, but not limited to, underwriting, actuarial studies, claims, legal, accounting and finance, data processing systems and information technology, and general overhead services (i.e. provision of office space, marketing and advertising, broker and producer appointments, allocation of expenses, and collection and handling of premium monies).

Under the terms of the Service Agreement, the Company pays as compensation to AIGI all costs incurred by AIGI in providing the services set forth above. In addition, the Company reimburses AIGI for all reasonable and documented out-of-pocket expenses. The total amount billed for 2011 amounted to $200,000 on an incurred basis.

Equipment Cost Allocation Agreement

Despite the Service Agreement between AIGI and the Company, senior management of AIGI and its subsidiaries may decide from time to time that it is advantageous for the Company's direct parent, Arch Insurance Company, to purchase computer and other office equipment either directly from unaffiliated third party vendors, or from AIGI at the lower of net book value or the fair market value, and to allocate the depreciation expense of the equipment among the subsidiaries in an equitable manner. To that end, the Company entered into an Equipment Cost

Allocation Agreement on June 1, 2004 with AIGI and its subsidiaries, Arch Insurance Company, Arch Specialty Insurance Company and Arch Indemnity Insurance Company.

The purpose of the Equipment Cost Allocation Agreement is for the subsidiaries to share such depreciation expense. The office equipment includes, but is not limited to, computer equipment that is characterized for accounting purposes as fixed assets and that will be used for the common benefit of the subsidiaries to insure the efficient operation of information technology systems.

Each of Arch Insurance Company's subsidiaries will reimburse Arch Insurance Company for its share of the depreciation expense paid by Arch Insurance Company for the office equipment, and the depreciation expense for the equipment will be allocated among the subsidiaries in direct proportion to the ratio that the direct premiums written by each of the subsidiaries bears to the total direct premiums written by all such subsidiaries for the most recently ended calendar year.

Investment Management Agreement

The Company entered into an Investment Management Agreement with Arch Investment Management Ltd. (AIM) on June 1, 2006, amended on January 1, 2010, whereby AIM provides the Company with investment and other related services. Under the terms of the agreement, the Company pays AIM, on a quarterly basis, 10 basis points for the first $500 million of assets managed and 8 basis points for assets managed over $500 million. For services indirectly managed, AIM shall, be paid, on a quarterly basis, 7.5 basis points. The total incurred fees for 2011 amounted to $21,612.

Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement on January 1, 2002 with its affiliates, including Arch Capital Group (U.S.) Inc, a Delaware corporation. The purpose of the

Tax Sharing Agreement is for the Company and its affiliates to be included in the filing of consolidated U.S. federal income tax returns in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986, as amended, to participate, to the extent permitted by applicable state or local law, in combined state and local income tax returns, if so requested by Arch Capital (U.S.) Inc., and to allocate and settle among such entities any consolidated U.S. tax liability. Arch Capital (U.S.) Inc. files U.S. federal income tax returns, including any amended returns, on behalf of the Company and its affiliates for each taxable year in accordance with the Code and related federal regulations.

Each Arch subsidiary that is a member of the tax sharing group reimburses Arch Capital (U.S.) Inc. for its pro rata share of all legal and accounting expenses incurred by Arch Capital (U.S.) Inc. in the course of conduct of any audit or contests regarding any consolidated tax liability, and for all expenses incurred by Arch Capital (U.S.) Inc. in the course of any litigation relating thereto. The pro-rata share of expenses for each Arch subsidiary shall be determined by Arch Capital (U.S.) Inc. in its sole discretion based upon such Arch subsidiary's share of the tax liability giving rise to such expense.

Credit Agreement

The Company and its affiliates, including the Company's ultimate parent, Arch Capital Group Ltd. (ACGL), are parties to a Credit Agreement named lending banks. The Credit Agreement provides the Arch entities with a $300 million unsecured revolving loan, with a $100 million sub-limit to issue letters of credit for the benefit of the Company's affiliate Arch Reinsurance Company, a Nebraska company, and a $500 million secured letter of credit facility.

The secured letters of credit are available for issuance on behalf of ACGL and its subsidiaries, including the Company, on a pro-rata basis once several financial requirements are met for the specific company. The Company has no guarantees or obligations in relation to this debt for any of its affiliates and has not borrowed any funds from the credit facility as of December 31, 2011.

Agreements and transactions with the Company's affiliates relating to reinsurance can be found in this report under the "Reinsurance" caption.

Omnibus Intercompany Settlement Agreement

On December 31, 2007, the Company entered into an Omnibus Intercompany Settlement Agreement by and among Arch Insurance Group Inc., Arch Insurance Company, Arch Specialty Insurance Company, and Arch Indemnity Insurance Company. In accordance with Statement of Statutory Accounting Principles No. 25, the settlement agreement addresses the method and/or timing of payments between these affiliates that were not addressed in the other current agreements noted above. This agreement covers funds intended for allocation among the affiliated companies and funds made to the incorrect affiliate in error. These payments will be paid as soon as practicable after receipt, but no later than ninety (90) days.

Intercompany Short Term Advance Agreement

On December 31, 2007, the Company entered into an Intercompany Short Term Advance Agreement by and among Arch Insurance Group, Inc., Arch Insurance Company, Arch Specialty Insurance Company, and Arch Indemnity Insurance Company. The agreement provides that from time to time, such parties may make short term loan advances to one another. No advances for any one party may exceed more than 3% of the lending or borrowing party's surplus, and the interest rate on all advances will be calculated at the prime rate plus 100 basis points. The maximum term of any loan issued under the agreement shall not exceed thirty days.

TERRITORY AND PLAN OF OPERATION

The Company is a casualty insurance company authorized to write insurance on an eligible surplus lines insurer in forty-seven states, excluding California and New Hampshire, the District of Columbia, and is an admitted insurer in Nebraska.

As of December 31, 2011, the Arch Insurance Group's operations was comprised 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's largest lines in 2011, by direct written premiums, were Products Liability and Inland Marine.

The Company's products are marketed and underwritten in four regional offices and three business unit headquarters locations. The regional offices are located in New York, NY; Chicago, IL; Alpharetta, GA; and San Francisco, CA and the Principal Office is located at Three Hundred Plaza Three, Jersey City, NJ. Additionally, there are smaller administrative and underwriting branch office locations in some of the regions.

Arch Insurance Group's products are marketed principally through licensed independent property and casualty brokers, excess and surplus lines brokers, and licensed wholesalers. The Company's products are distributed through several hundred regional producer firms and most of the mid-sized and large brokerage houses. The Company distributes its underwriting products through 512 producer firms in major U.S. markets. Regional Executive Vice Presidents manage the broker and producer appointment process on an ongoing basis. If a non-admitted carrier and products are appropriate for a particular program, Arch Insurance Group works with specialized license producers and program managers to market products to targeted industry groups. In each of the regions, underwriters with established acceptance in the brokerage community are assigned to specific broker/agent producer sources.

Arch Insurance Group's stated overall strategy is to continue to focus on writing specialty lines of business with underwriting and technical skills focused appropriately. It is management's belief that the existing underwriting platform, a strong management team, and capital unencumbered by significant exposure to pre-2002 risks have enabled the Company to establish a strong presence in the insurance marketplace. Being a specialty insurer can involve an unusual set of exposures, coverage that is uniquely crafted, brokerage or customer access that is exclusive or difficult to replicate, or a combination of these characteristics. Brokerage based or program business that fits these criteria will continue to be entertained by the Company and any expansion opportunities will be viewed through this lens particularly if it improves the Company's diversification. The Company will continue to leverage their knowledge and expertise across the globe by writing, wherever possible, similar lines of business and exposures.

REINSURANCE

Ceded - Affiliated

The Company is party to an agreement where AESIC cedes 100% of the net retained business to Arch Insurance Company (AIC). AIC has a retrocession agreement with Arch Reinsurance Ltd., its Bermuda affiliate, under which Arch Reinsurance Ltd. agrees to reinsure AIC's business, after the application of all inuring reinsurance, arising from all insurance business undertaken, written on or after January 1, 2007, other than insurance business produced by the casualty and alternative markets profit centers, and any involuntary pools. As of

December 31, 2011, the agreement ceded 50% of the remaining business except for ceding 30% of the retained liability for business underwritten by the Executive Assurance business division and ceding 80% of the retained liability for business underwritten by the Excess & Surplus and Global Property divisions.

As a benefit for its subsidiaries, Arch Capital Group, Ltd. (ACGL) has negotiated and purchased property catastrophe excess of loss reinsurance coverage under three separate reinsurance agreements for the purpose of protecting its subsidiaries, including the Company, from potential catastrophic loss exposure on a calendar year basis for each business line in layered limits consisting of four layers: the first, $50,000,000 excess of $100,000,000; the second, $75,000,000 excess of $150,000,000; the third, $100,000,000 excess of $225,000,000; and the fourth, $25,000,000 excess of $325,000,000.

ACGL and certain of its subsidiaries, including the Company, entered into a Property Catastrophe Excess of Loss Reinsurance Cost Allocation Agreement on December 31, 2003 (as amended on December 1, 2005, January 1, 2007, and January 1, 2011). The purpose of this agreement is for ACGL's subsidiaries that are the beneficiaries of such reinsurance protection to share in the costs for such reinsurance placement. The premium costs advanced are determined based on exposure allocations and each subsidiary is responsible to fund their applicable amount of ceded premium into the shared trust account. In order to effect the foregoing reinsurance agreements, All applicable Arch affiliates have established a trust bank account from which each affiliate funds their applicable share of the Property CAT cost. ACGL then wires the premium from the trust to the appropriate brokers and/or reinsurers. Any money arriving into this trust account is distributed to each Arch affiliate as required.

The Company also entered into a Portfolio Reinsurance Agreement with AIC on January 1, 2007, under which Arch Insurance Company agreed to reinsure 100% of the net business written by the Company.

The Company entered into reinsurance arrangements with its affiliates, Alternative Re Limited and Alternative Insurance Company Limited, pursuant to which it cedes risks under policies issued to preferred shareholders (and/or their affiliates) of Alternative Re Limited and Alternative Insurance Company Limited. During 2006, all business recorded by Alternative Ltd. was novated into Alternative Re.

Ceded – Not Affiliated

As of December 31, 2011, in addition to selected placement of facultative reinsurance on a case by case basis, the Company also has several in-force reinsurance agreements with authorized and unauthorized reinsurers on a quota share and excess of loss basis. In total as of December 31, 2012, premiums ceded, losses paid, and ceded reserves were not material.

General

Many of the ceded reinsurance agreements entered into by the Company include other affiliated companies as reinsured. These agreements are commonly known as multi-cedent reinsurance agreements. These agreements do not include provisions clarifying how each of the participating reinsured would share in the recovery provisions of the contracts or other requirements such as premium deposits, nor is there any formalized written agreement separate from the reinsurance contracts between the affiliates for this purpose. It is recommended that the Company continues to work with the Nebraska Department of Insurance to ensure that that separate cost sharing agreements for each agreement be filed pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §44-2133(2).

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period under review:

	2008	2009	2010	2011
Bonds	$22,734,284	$20,050,221	$22,201,944	$23,182,293
Admitted assets	28,303,675	28,634,201	31,788,094	52,563,748
Loss reserves	629,614	705,311	706,088	597,729
Total liabilities	2,053,190	1,637,373	3,956,545	1,346,711
Unassigned funds surplus	8,278,293	9,019,750	9,848,010	10,380,837
Capital and surplus	26,250,485	26,996,828	27,831,549	51,217,037
Premiums earned	183,065	16,045	2,593	2
Losses incurred	259,561	75,697	777	(108,359)
Net underwriting gain/(loss)	(107,461)	(765,316)	(38,943)	(287,723)
Net investment gain	1,368,604	1,528,730	707,447	740,964
Net income	924,740	1,112,275	482,400	362,825

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company as of December 31, 2011, and its transactions for the year 2011 as determined by this examination. A reconciliation of the capital and surplus account for the four-year period under review is also included.

FINANCIAL STATEMENTS
December 31, 2011

Assets

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$23,182,293		$23,182,293
Stocks	22,954,775		22,954,775
Cash and short-term investments	4,508,376		4,508,376
Receivable for securities	27,498		27,498
Subtotals, cash and invested assets	$50,672,942		$50,672,942
Investment income due and accrued	219,424		219,424
Amounts recoverable from reinsurers	739,376		739,376
Net deferred tax asset	74,697	$34,057	40,640
Receivable from parent, subsidiaries, and affiliates	650,818		650,818
Advanced claim payments	240,548		240,548
Other assets	3,222	3,222	
Total	$52,601,027	$37,279	$52,563,748

Liabilities, Surplus and Other Funds

Losses	$ 597,729
Loss adjustment expenses	382,911
Commissions payable	15,567
Other expenses	100,943
Current federal and foreign income taxes	139,711
Ceded reinsurance premiums payable	29,250
Funds held by company under reinsurance treaty	22,210
Provision for reinsurance	4,614
Payable to parent, subsidiaries, and affiliates	53,191
Claims payable	586
Total liabilities	$ 1,346,711
Common capital stock	$ 5,000,000
Gross paid in and contributed surplus	35,836,200
Unassigned funds (surplus)	10,380,837
Surplus as regards policyholders	$51,217,037
Total	$52,563,748

STATEMENT OF INCOME - 2011

Underwriting Income

Premiums earned	$ 2
Deductions:	
Losses incurred	$(108,359)
Loss adjustment expenses incurred	157,521
Other underwriting expenses incurred	238,563
Total underwriting deductions	$ 287,725
Net underwriting gain or (loss)	$ (287,723)

Investment Income

Net investment income earned	$ 574,898
Net realized capital gain	166,066
Net investment gain	$ 740,964

Other Income

Net gain (loss) from agents' or premium balances charged off	$ (36,855)
Net income before federal income taxes	$ 416,386
Federal income taxes incurred	53,561
Net income	$ 362,825

CAPITAL AND SURPLUS ACCOUNT

	2008	2009	2010	2011
Capital and surplus, beginning	$25,428,594	$26,250,485	$26,996,828	$27,831,549
Net income	$ 924,740	$ 1,112,275	$ 482,400	$ 362,825
Change in net unrealized capital gains/(losses)	(2,061)	(1,947)	1,947	115,227
Change in net deferred income tax	14,239	(53,834)	3,446	(20,536)
Change in non-admitted assets	(73,691)	7,520	(5,134)	41,200
Change in provision for reinsurance	(51,856)	(322,557)	345,601	34,111
Paid in surplus adjustment	10,520	4,886	6,461	22,852,661
Change for year	$ 821,891	$ 746,343	$ 834,721	$23,385,488
Capital and surplus, ending	$26,250,485	$26,996,828	$27,831,549	$51,217,037

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $10,380,837 as reported in the Company's 2011 Annual Statement, has been accepted for examination, purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

> Corporate Records - It is again recommended that the Company amend its Articles of Incorporation and its By-Laws to correctly state the location of its Principal Office.
>
> Action: The Company has complied with this recommendation.
>
> Multi-cedent Reinsurance Agreements - It is recommended that the Company take steps to ensure that each such structured agreements include a provision describing how the insureds will be sharing under the agreements or that separate cost sharing agreements for each agreement be filed with the Director of the Nebraska Department of Insurance pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §44-2133(2).
>
> Action: The Company has filed with the Nebraska Department of Insurance several cost allocation agreements which are in the process of being reviewed.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There were no additional findings warranting a comment in this report as a result of the examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Multi-cedent Reinsurance Agreements - It is recommended that the Company continues to work with the Nebraska Department of Insurance to ensure that that separate cost sharing agreements for each agreement be filed pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §44-2133(2).

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Elizabeth I. Hofker and Kevin L. Stubbs, Financial Examiners and Gary E. Evans, CISA, AES, CFE, Information Systems Specialist all with the Nebraska Department of Insurance; Vicki L. Denton, CFE, Steve Koonse, CFE, and Alvin Garon, CFE, Financial Examiners all with the Missouri Department of Insurance; and Jon W. Michelson, FCAS, MAAA, Consulting Actuary with Expert Actuarial Services, LLC; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Skyler E. Lawyer, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Arch Excess and Surplus Insurance Company.

2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Arch Excess and Surplus Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 27th day of June, 2013.

(SEAL) GENERAL NOTARY - State of Nebraska
BRANDIS J. COURSER
My Comm. Exp. July 25, 2014

Notary Public

My commission expires July 25, 2014 [date].