



066513 - Arch Insurance Canada Ltd.

Report Revision Date: 08/30/2017

| Rating and Commentary ¹ | Financial ² | General Information ³ |
|--|--|---|
| Best's Credit Rating: 08/30/2017 Rating Rationale: 08/30/2017 Report Commentary: 07/01/2015 | Time Period: Annual - 2014 Last Updated: 03/07/2016 Status: Quality Cross Checked | Corporate Structure: N/A States Licensed: 02/24/2012 Officers and Directors: 06/24/2015 |
|  Best's Credit Rating Methodology | Disclaimer |  Best's Rating Guide |

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[Archived AMB Credit Reports](#)

[Corporate Changes & Retirements](#)

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¹ The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

² The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

³ The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Ultimate Parent: [Arch Capital Group Ltd.](#)

Arch Insurance Canada Ltd.

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Tel.: 416-309-8100

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AMB #: 066513

Ultimate Parent #: 058459

NAIC #: N/A

AIIN#: AA-1560118

Data shown in the financial exhibits of this report is in Canadian dollars.

Best's Credit Ratings

Best's Financial Strength Rating: A+

Outlook: Negative

Best's Issuer Credit Rating: aa-

Outlook: Negative

Rating Effective Date: 08/30/2017

Financial Size Category: XV

Report Revision Date: 08/30/2017

Rating Rationale

Rating Rationale: The ratings of Arch Reinsurance Ltd. are extended to Arch Insurance Canada Ltd. based on its role in the ultimate parent company's operations. This position is further supported by common ownership, common management, implicit support and internal reinsurance.

The following text is derived from A.M. Best's Credit Report on Arch Reinsurance Ltd (AMB# 075169).

The ratings are based on Arch's historically strong operating performance compared to its peers, strong balance sheet strength as measured by Best's Capital Adequacy Ratio, and strong management team. Arch continues to outperform many of its peers on most operating metrics while maintaining a strong risk-adjusted capital position, despite the soft pricing environment and anemic investment returns presented by the market. In years where there have been large market losses such as KRW in 2005, the financial crisis in 2008, and the string of global catastrophes in 2011, Arch has performed well compared to most of its peers. This robust performance is in part attributable to the result of Arch's strong risk management framework. In addition, Arch has demonstrated that it will actively manage the re/insurance cycle, and over the past several years Arch has strived to seek opportunities for return wherever they present themselves. Arch's foray into the mortgage insurance business is a recent example of this flexibility. Arch is a company that has demonstrated it prudently executes its business plan but remains nimble enough to take advantage of opportunities.

Partially offsetting these positive rating attributes, in addition to the aforementioned increase in financial leverage and mortgage insurance model risk, are the soft market conditions in insurance and reinsurance that Arch must contend with on a daily basis. These market conditions will continue to challenge Arch to retain and find profitable business as well as retain talented professionals. Despite the adversarial market conditions, Arch's operating performance has held steady and return on revenue and return on equity (compared to peer companies) measures indicate successful soft market navigation.

The current outlooks primarily reflect the significant increase in financial leverage as Arch issued \$950 million of senior unsecured notes and \$450 million of preferred shares at the end of 2016, the proceeds of which helped fund the purchase of United Guaranty Corporation. Interest and preferred dividend coverage remains strong. While both financial leverage and coverage remain supportive of the ratings, the outlooks reflect the additional risk assumed by the organization. Additionally, the outlooks reflect the significant mortgage insurance risk assumed by Arch upon the purchase of United Guaranty as well as the integration risk of this large acquisition. The mortgage insurance business relies heavily on financial models that can vary from actual results. A.M. Best utilized what it believes to be a conservative stress scenario for Arch's mortgage insurance book of business when calculating stress-tested risk-adjusted capitalization. Mortgage insurance and reinsurance products have a

Rating Rationale (Continued...)

relatively long tail as do most of Arch's current property casualty insurance and reinsurance products. A.M. Best considered long-term sources of liquidity in the evaluation of these potential tail-risk events.

Factors that could lead to the rating outlooks being revised to stable or rating upgrades include decreased financial leverage, mortgage insurance actual results that confirm modeled results, continued long-term favorable operating profitability relative to its peers and maintenance of strong risk-adjusted capital levels and successful integration of United Guaranty.

Factors that could cause rating downgrades include unfavorable operating performance trends compared to peers; outsized mortgage, catastrophe or investment losses relative to peers; significant adverse loss reserve development and/or a material decline in risk-adjusted capitalization; and loss and expense issues resulting from unsuccessful integration of United Guaranty.

Five Year Rating History

| Date | BEST'S | |
|------------|--------|-------|
| | FSR | ICR |
| 08/30/2017 | A+ | aa- |
| 08/17/2016 | A+ u | aa- u |
| 08/21/2015 | A+ | aa- |
| 03/20/2014 | A+ | aa- |
| 01/24/2013 | A+ | aa- |

Key Financial Indicators

| Period Ending | Statutory Data (\$000) | | | | | |
|---------------|------------------------|--------|--------------------------|------------|--------------|------------------|
| | Premiums Written | | Pre-tax Operating Income | Net Income | Total Assets | Capital & Equity |
| | Direct | Net | | | | |
| 2014 | 79,089 | 13,065 | 818 | 1,672 | 466,300 | 102,567 |
| 2013 | 89,760 | 17,955 | -37,276 | -37,686 | 465,889 | 99,170 |
| 2012 | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... |
| 2010 | 94,820 | 53,806 | 10,906 | 7,695 | 223,977 | 57,712 |

Key Financial Indicators (Continued...)

| Period Ending | Profitability | | | Leverage | | Liquidity |
|---------------|--------------------|----------------------|-----------------|------------|--------------|-----------------------|
| | Underwriting Ratio | Investment Yield (%) | Pre-tax ROR (%) | NPW to C/S | Net Leverage | Overall Liquidity (%) |
| 2014 | 122.1 | 1.4 | 4.8 | 0.1 | 1.8 | 160.4 |
| 2013 | 187.6 | 3.6 | -78.3 | 0.2 | 2.1 | 153.0 |
| 2012 | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... |
| 2010 | 81.1 | 2.3 | 24.7 | 0.9 | 2.8 | 154.4 |
| 5-Yr Avg | 134.1 | 1.9 | -23.5 | ... | ... | ... |

(*) Within several financial tables of this report, this company is compared against the Total Canadian Aggregate Property Casualty - Commercial Casualty.

(*) Financial data presentation does not incorporate prior period restatements.

(*) Underwriting Ratio entirely calculated based on Net Premiums Earned.

Business Profile

The following text is derived from A.M. Best's Credit Report on Arch Insurance Company (AMB# 003186).

Arch Insurance Company ("AIC") is a member of Arch Capital Group Ltd. ("ACGL"), a Bermuda-based holding company with global operations. ACGL, through its operations in Bermuda, Europe, the United States, and Canada writes specialty insurance and reinsurance on a worldwide basis.

AIC operates as part of the insurance group of ACGL under common management with other affiliated insurance companies (Arch Insurance Company (Europe) Limited, Arch Insurance Canada Ltd., Arch Specialty Insurance Company ("ASIC"), Arch Excess & Surplus Insurance Company ("AESIC") and Arch Indemnity Insurance Company ("AIIC"). The insurance group of ACGL's primary insurance operations comprise the following lines of business or "profit centers": casualty (including primary, excess and umbrella, residential contractors and railroads); alternative markets; construction (including primary and excess coverages for middle and large construction industry accounts, environmental and design professionals, pollution legal liability and alternative markets); executive assurance (including non-profit, growth and middle market, alternative asset protection, financial and commercial institution directors and officers liability and errors and omissions coverage); healthcare; contract binding operations; national accounts casualty; excess workers compensation; professional liability (including accounting firms and lawyers professional liability); travel and accident insurance; lenders' products; programs; property; special risks (including onshore and offshore property, casualty coverages for commercial clients, contractors all risk, erection all risk, and stand-alone terrorism); accident and health and surety.

Scope of Operations

Total Premium Composition & Growth Analysis

| Period Ending | Direct Premiums Written | | Reinsurance Premiums Assumed | | Reinsurance Premiums Ceded | | Net Premiums Written | | Net Premiums Earned | |
|---------------|-------------------------|--------|------------------------------|--------|----------------------------|--------|----------------------|--------|---------------------|--------|
| | (\$000) | (%Chg) | (\$000) | (%Chg) | (\$000) | (%Chg) | (\$000) | (%Chg) | (\$000) | (%Chg) |
| 2014 | 79,089 | -11.9 | 37,944 | -1.0 | 103,968 | -5.6 | 13,065 | -27.2 | 17,089 | -64.1 |
| 2013 | 89,760 | ... | 38,337 | ... | 110,142 | ... | 17,955 | ... | 47,622 | ... |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | 94,820 | 38.5 | 13,170 | 40.6 | 54,184 | 31.1 | 53,806 | 47.4 | 44,227 | 37.6 |
| 5-Yr CAGR | XX | 2.9 | XX | 32.3 | XX | 20.3 | XX | -18.6 | XX | -11.9 |

Territory

The company is licensed in all provinces and territories.

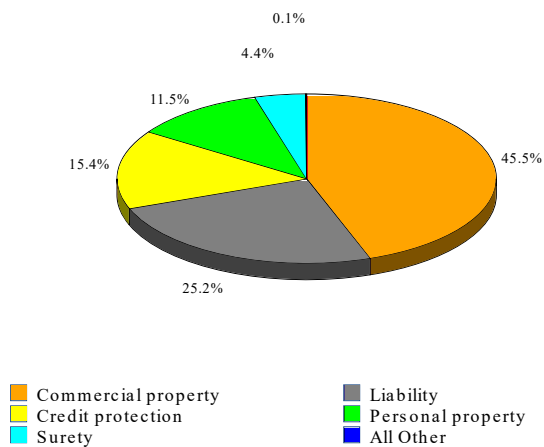
Business Trends

Business Trends (Continued...)

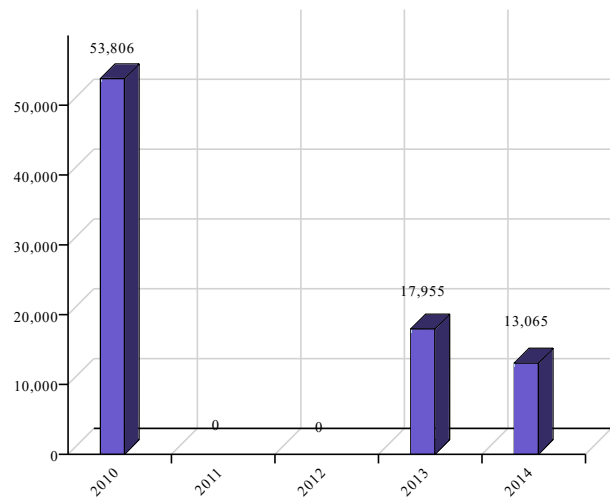
2014 By-Line Business (\$000)

| Product Line | Direct Premiums Written | | Reinsurance Premiums Assumed | | Reinsurance Premiums Ceded | | Net Premiums Written | | Business Retention (%) |
|------------------------|-------------------------|--------------|------------------------------|--------------|----------------------------|--------------|----------------------|--------------|------------------------|
| | (\$000) | (%) | (\$000) | (%) | (\$000) | (%) | (\$000) | (%) | |
| Commercial property | 41,998 | 53.1 | 21,359 | 56.3 | 57,410 | 55.2 | 5,947 | 45.5 | 9.4 |
| Liability | 27,113 | 34.3 | 2,085 | 5.5 | 25,900 | 24.9 | 3,298 | 25.2 | 11.3 |
| Credit protection | 6,703 | 8.5 | ... | ... | 4,690 | 4.5 | 2,013 | 15.4 | 30.0 |
| Personal property | ... | ... | 11,498 | 30.3 | 10,002 | 9.6 | 1,496 | 11.5 | 13.0 |
| Surety | ... | ... | 3,002 | 7.9 | 2,427 | 2.3 | 575 | 4.4 | 19.2 |
| Automobile - liability | 1,001 | 1.3 | ... | ... | 1,274 | 1.2 | -273 | -2.1 | -27.3 |
| All Other | 2,274 | 2.9 | ... | ... | 2,265 | 2.2 | 9 | 0.1 | 0.4 |
| Total | 79,089 | 100.0 | 37,944 | 100.0 | 103,968 | 100.0 | 13,065 | 100.0 | 11.2 |

2014 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written (\$000)



Business Trends (Continued...)

By-Line Reserves (\$000)

| Product Line | 2014 | 2013 | 2012 | 2011 | 2010 |
|------------------------|---------|---------|------|------|--------|
| Commercial property | 28,651 | 38,779 | ... | ... | 20,354 |
| Liability | 44,600 | 49,693 | ... | ... | 25,029 |
| Credit protection | 4,776 | 5,344 | ... | ... | 805 |
| Personal property | ... | -2,825 | ... | ... | ... |
| Surety | 3,031 | 4,059 | ... | ... | ... |
| Automobile - liability | 25,397 | 28,854 | ... | ... | 632 |
| All Other | 15,547 | 15,681 | ... | ... | 3,173 |
| Total | 122,002 | 139,585 | ... | ... | 49,993 |

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings (\$000)

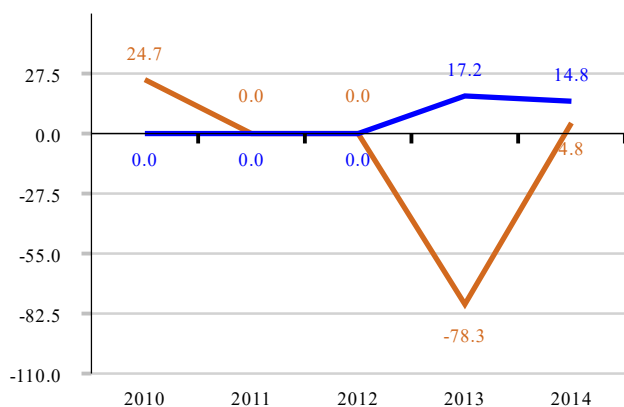
| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------------|--------|--------|------|------|--------|
| Ontario | 34,151 | 37,731 | ... | ... | 52,491 |
| Alberta | 17,262 | 21,792 | ... | ... | 19,255 |
| British Columbia | 9,143 | 9,738 | ... | ... | 7,740 |
| Quebec | 7,235 | 5,329 | ... | ... | 7,327 |
| Manitoba | 3,624 | 5,072 | ... | ... | 2,827 |
| Nova Scotia | 2,307 | 2,599 | ... | ... | 1,636 |
| New Brunswick | 1,998 | 1,993 | ... | ... | 1,577 |
| Saskatchewan | 1,889 | 3,850 | ... | ... | 1,462 |
| Newfoundland and Labrador | 943 | 982 | ... | ... | 328 |
| Out of Canada | 212 | 183 | ... | ... | -6 |
| All Other | 325 | 491 | ... | ... | 183 |
| Total | 79,089 | 89,760 | ... | ... | 94,820 |

Operating Performance

Profitability Analysis

| Period Ending | Company | | | | | | | Industry Composite | | |
|---------------|----------------------------------|------------------------------------|--------------------|----------------------|-----------------|-------------------|---------------------|--------------------|-------------------|---------------------|
| | Pre-tax Operating Income (\$000) | After-tax Operating Income (\$000) | Net Income (\$000) | Total Return (\$000) | Pre-tax ROR (%) | Return on C/S (%) | Operating Ratio (%) | Pre-tax ROR (%) | Return on C/S (%) | Operating Ratio (%) |
| 2014 | 818 | 673 | 1,672 | 3,342 | 4.8 | 3.3 | 103.1 | 14.8 | 11.5 | 89.2 |
| 2013 | -37,276 | -39,187 | -37,686 | -38,552 | -78.3 | -77.7 | 178.6 | 17.2 | 9.5 | 85.2 |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | 10,906 | 7,535 | 7,695 | 8,338 | 24.7 | 16.4 | 75.0 | ... | ... | ... |
| 5-Yr Avg/Tot | -25,552 | -30,979 | -28,319 | -26,872 | -23.5 | -11.7 | 124.7 | ... | ... | ... |

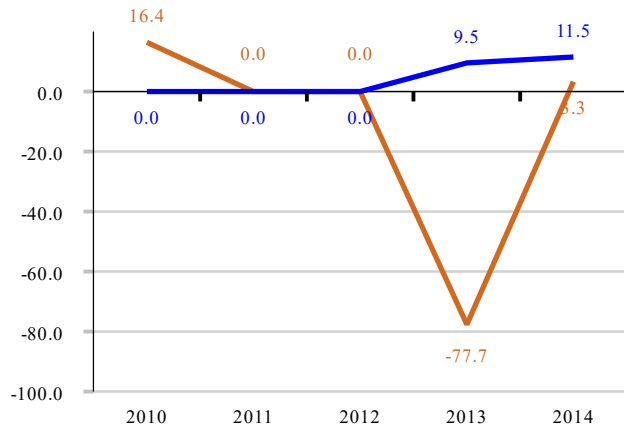
Pre-tax ROR Comparison with Industry Composite



■ - Company Pre-tax ROR
■ - Industry Composite Pre-tax ROR

* Industry Composite - Total Canadian Aggregate Property Casualty - Commercial

Return on C/S Comparison with Industry Composite



■ - Company Return on C/S
■ - Industry Composite Return on C/S

* Industry Composite - Total Canadian Aggregate Property Casualty - Commercial

Underwriting Results

Underwriting Results (Continued...)

Underwriting Experience

| Year | Net Undrw Income (\$'000) | Loss Ratios | | | Expense Ratios | | | Undrw Ratio |
|--------------|------------------------------|-------------|-----------------|--------------------------------------|----------------|------------|------------|----------------|
| | | Pure Loss | Adj Expenses | Net Incurred Loss & Adj Exp | Net Comm | Other Exp. | Total Exp. | |
| 2014 | -3,779 | 20.7 | 27.7 | 48.4 | -87.3 | 161.0 | 73.7 | 122.1 |
| 2013 | -41,707 | 117.6 | 15.9 | 133.5 | -14.5 | 68.6 | 54.1 | 187.6 |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | 8,350 | 46.2 | 6.5 | 52.7 | -7.0 | 35.4 | 28.4 | 81.1 |
| 5-Yr Avg/Tot | -37,136 | 73.4 | 14.0 | 87.4 | -22.9 | 69.6 | 46.7 | 134.1 |

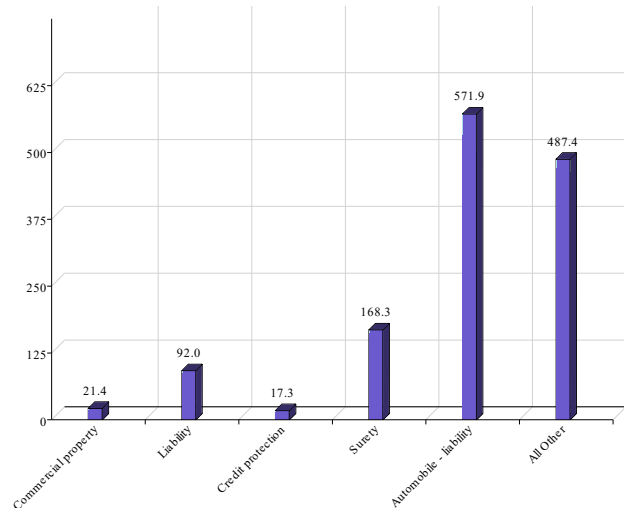
Loss Ratio By Line

| Product Line | 2014 | 2013 | 2012 | 2011 | 2010 | 5-Yr. Avg. |
|------------------------|-------|-------|------|------|-------|------------|
| Commercial property | 21.4 | 124.4 | ... | ... | 59.2 | 73.6 |
| Liability | 92.0 | 60.2 | ... | ... | 22.0 | 43.6 |
| Credit protection | 17.3 | 0.4 | ... | ... | 75.4 | 12.6 |
| Personal property | ... | -99.9 | ... | ... | ... | -76.6 |
| Surety | 168.3 | 354.2 | ... | ... | ... | 269.1 |
| Automobile - liability | 571.9 | 999.9 | ... | ... | 82.1 | 667.0 |
| All Other | 487.4 | 544.3 | ... | ... | 183.1 | 352.2 |
| Total | 48.4 | 133.5 | ... | ... | 52.7 | 87.4 |

Combined Ratio

Data not available

2014 Pure Loss Ratio by Product Line



Underwriting Results (Continued...)

Direct Loss Ratio By Territory

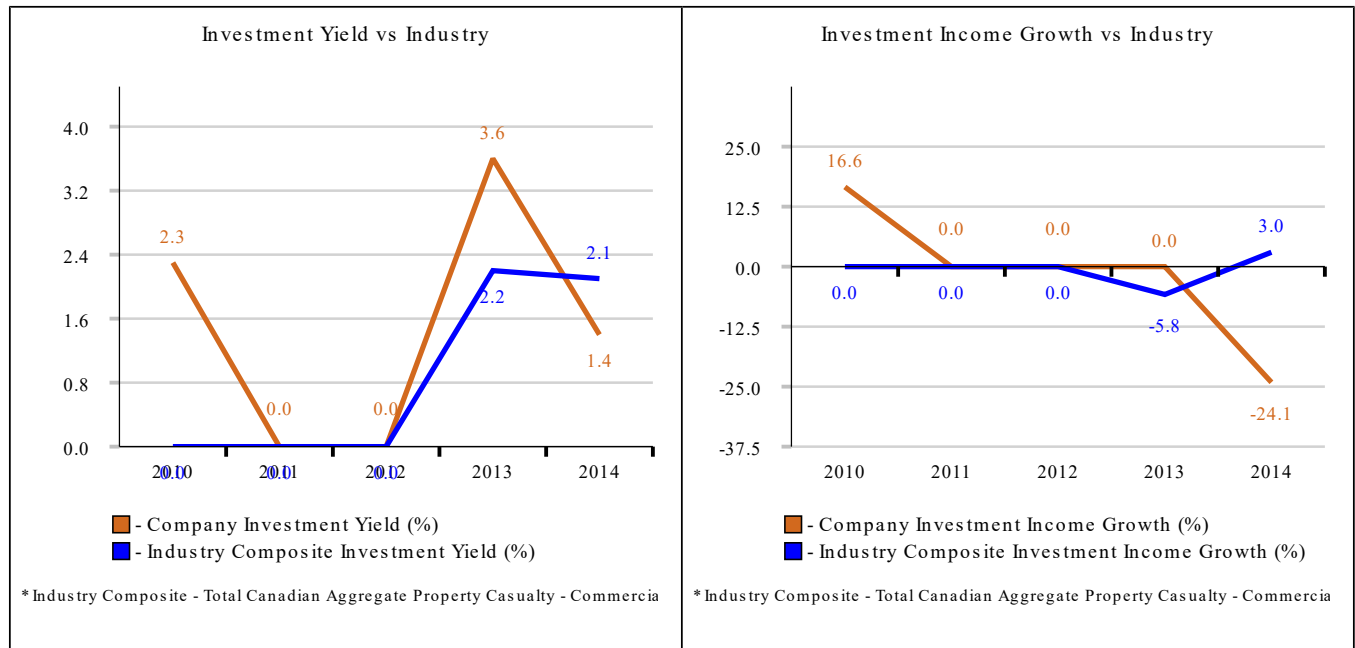
| | 2014 | 2013 | 2012 | 2011 | 2010 | 5-Yr. Avg. |
|---------------------------|-------|-------|------|------|-------|------------|
| Ontario | 50.8 | 126.2 | ... | ... | 30.6 | 74.2 |
| Alberta | 36.1 | 69.6 | ... | ... | 20.5 | 43.3 |
| British Columbia | 13.8 | 212.1 | ... | ... | 59.5 | 98.1 |
| Quebec | 11.5 | 59.9 | ... | ... | 37.3 | 34.6 |
| Manitoba | 44.6 | 121.6 | ... | ... | 54.5 | 79.6 |
| Nova Scotia | 37.7 | 49.7 | ... | ... | 116.4 | 60.3 |
| New Brunswick | 38.4 | 56.8 | ... | ... | 24.0 | 41.5 |
| Saskatchewan | 93.0 | 18.1 | ... | ... | 45.9 | 48.6 |
| Newfoundland and Labrador | 21.7 | 17.2 | ... | ... | 38.3 | 22.1 |
| Out of Canada | 341.3 | 999.9 | ... | ... | 999.9 | 999.9 |
| All Other | 189.0 | 446.0 | ... | ... | -82.9 | 282.1 |
| Total | 41.4 | 114.7 | ... | ... | 35.2 | 67.6 |

Investment Results

Investment Gains

| Year | Company | | | | | | Industry Composite | |
|--------------|-------------------------------|--------------------------------|----------------------------------|------------------------------|----------------------|-------------------------------|------------------------------|----------------------|
| | Net Investment Income (\$000) | Realized Capital Gains (\$000) | Unrealized Capital Gains (\$000) | Investment Income Growth (%) | Investment Yield (%) | Return on Invested Assets (%) | Investment Income Growth (%) | Investment Yield (%) |
| 2014 | 3,255 | 999 | 1,670 | -24.1 | 1.4 | 1.8 | 3.0 | 2.1 |
| 2013 | 4,287 | 1,501 | -866 | ... | 3.6 | 4.9 | -5.8 | 2.2 |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | 2,691 | 160 | 643 | 16.6 | 2.3 | 2.5 | ... | ... |
| 5-Yr Avg/Tot | 10,233 | 2,660 | 1,447 | 7.1 | 1.9 | 2.4 | ... | ... |

Investment Results (Continued...)



Balance Sheet Strength

Capitalization

Capital Generation Analysis (\$000)

| Year | Source of Surplus Growth | | | | | | | | % Change in C/S |
|------------|--------------------------|------------------------|--------------|--------------------------|-------------------------|-----------------------|---------------|---------------|-----------------|
| | Pre-tax Operating Income | Realized Capital Gains | Income Taxes | Unrealized Capital Gains | Net Contributed Capital | Other Changes in AOCI | Other Changes | Change in C/S | |
| 2014 | 818 | 999 | 145 | 1,670 | 912 | -857 | ... | 3,397 | 3.4 |
| 2013 | -37,276 | 1,501 | 1,911 | -866 | 136,228 | 1,482 | 12 | 99,170 | ... |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | -57,712 | -57,712 | ... |
| 2010 | 10,906 | 160 | 3,371 | 643 | 5,502 | -261 | ... | 13,579 | 30.8 |
| 5-Yr Total | -25,552 | 2,660 | 5,427 | 1,447 | 142,642 | -1,325 | -56,011 | 58,434 | 18.4 |

Underwriting Leverage

Leverage Analysis

| Year | Company | | | | Industry Composite | | | |
|------|------------|-----------------|--------------|----------------|--------------------|-----------------|--------------|----------------|
| | NPW to C/S | Reserves to C/S | Net Leverage | Gross Leverage | NPW to C/S | Reserves to C/S | Net Leverage | Gross Leverage |
| 2014 | 0.1 | 1.2 | 1.8 | 4.8 | 0.7 | 1.3 | 2.4 | 3.1 |
| 2013 | 0.2 | 1.4 | 2.1 | 5.1 | 0.7 | 1.3 | 2.4 | 3.0 |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | 0.9 | 0.9 | 2.8 | 4.8 | ... | ... | ... | ... |

Underwriting Leverage (Continued...)



Loss Reserves

Loss Reserve Analysis - Non Discounted

Unpaid Claims & Adj Expense Development: Calendar Year (\$000)

| Calendar Year | Original Loss Reserves | Developed Reserves Thru Latest Year End | Development to Original (%) | Development to C/S (%) | Development to NPE (%) | Unpaid Reserves @ Latest Year End | Unpaid Reserves to Development (%) |
|---------------|------------------------|---|-----------------------------|------------------------|------------------------|-----------------------------------|------------------------------------|
| 2014 | 108,624 | 108,624 | ... | ... | 635.6 | 108,624 | 100.0 |
| 2013 | 124,298 | 120,164 | -3.3 | -4.2 | 252.3 | 96,445 | 80.3 |
| 2012 | 105,052 | 124,044 | 18.1 | ... | ... | 71,556 | 57.7 |
| 2011 | 76,688 | 86,371 | 12.6 | ... | ... | 39,312 | 45.5 |
| 2010 | 46,282 | 46,395 | 0.2 | 0.2 | 104.9 | 17,367 | 37.4 |

Unpaid Claims & Adj Expense Development: Accident Year (\$000)

| Accident Year | Original Loss Reserves | Developed Reserves Thru Latest Year End | Development to Original (%) | Unpaid Reserves @ Latest Year End | Accident Year Loss Ratio | Accident Year Comb. Ratio |
|---------------|------------------------|---|-----------------------------|-----------------------------------|--------------------------|---------------------------|
| 2014 | 12,179 | 12,179 | ... | 12,179 | 83.9 | 157.6 |
| 2013 | 37,157 | 31,397 | -15.5 | 24,889 | 75.5 | 129.6 |
| 2012 | 61,532 | 63,057 | 2.5 | 32,244 | ... | ... |
| 2011 | 42,420 | 47,970 | 13.1 | 21,945 | ... | ... |
| 2010 | 25,159 | 26,785 | 6.5 | 7,403 | 67.9 | 96.4 |

Loss Reserves (Continued...)

Loss Reserve Analysis - Discounted

Unpaid Claims & Adj Expense Development: Calendar Year (\$000)

| Calendar Year | Original Loss Reserves | Developed Reserves Thru Latest Year End | Development to Original (%) | Development to C/S (%) | Development to NPE (%) | Unpaid Reserves @ Latest Year End | Unpaid Reserves to Development (%) |
|---------------|------------------------|---|-----------------------------|------------------------|------------------------|-----------------------------------|------------------------------------|
| 2014 | 122,002 | 122,002 | ... | ... | 713.9 | 122,002 | 100.0 |
| 2013 | 139,585 | 134,388 | -3.7 | -5.2 | 282.2 | 110,800 | 82.4 |
| 2012 | 115,841 | 134,334 | 16.0 | ... | ... | 82,299 | 61.3 |
| 2011 | 84,410 | 90,131 | 6.8 | ... | ... | 43,886 | 48.7 |
| 2010 | 49,993 | 46,580 | -6.8 | -5.9 | 105.3 | 18,667 | 40.1 |

Unpaid Claims & Adj Expense Development: Accident Year (\$000)

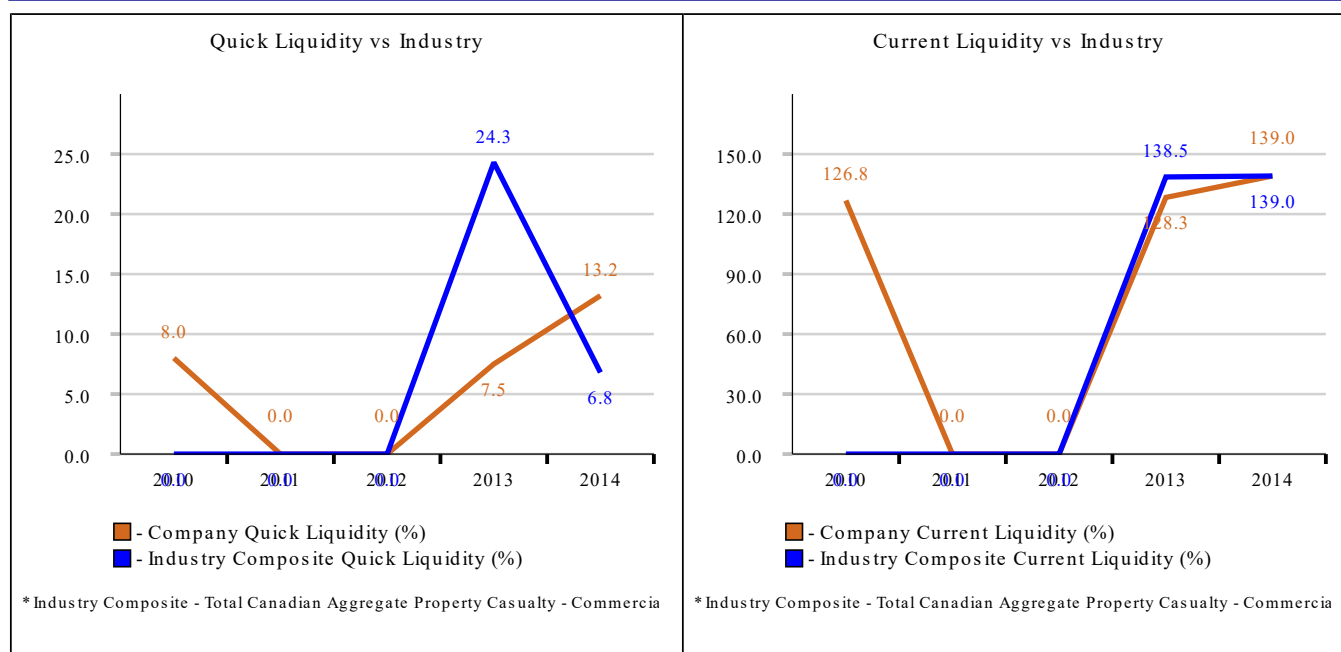
| Accident Year | Original Loss Reserves | Developed Reserves Thru Latest Year End | Development to Original (%) | Unpaid Reserves @ Latest Year End | Accident Year Loss Ratio | Accident Year Comb. Ratio |
|---------------|------------------------|---|-----------------------------|-----------------------------------|--------------------------|---------------------------|
| 2014 | 11,202 | 11,202 | ... | 11,202 | 78.8 | 152.5 |
| 2013 | 41,074 | 35,331 | -14.0 | 28,501 | 83.8 | 137.8 |
| 2012 | 67,685 | 69,587 | 2.8 | 38,413 | ... | ... |
| 2011 | 46,391 | 51,545 | 11.1 | 25,219 | ... | ... |
| 2010 | 27,035 | 27,510 | 1.8 | 8,065 | 69.6 | 98.0 |

Liquidity

Liquidity Analysis

| Year | Company | | | | Industry Composite | | | |
|------|---------------------|-----------------------|-----------------------|---------------------------|---------------------|-----------------------|-----------------------|---------------------------|
| | Quick Liquidity (%) | Current Liquidity (%) | Overall Liquidity (%) | Agents Balances to C/S(%) | Quick Liquidity (%) | Current Liquidity (%) | Overall Liquidity (%) | Agents Balances to C/S(%) |
| 2014 | 13.2 | 139.0 | 160.4 | 5.5 | 6.8 | 139.0 | 156.2 | 17.6 |
| 2013 | 7.5 | 128.3 | 153.0 | 7.3 | 24.3 | 138.5 | 157.1 | 18.7 |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | 8.0 | 126.8 | 154.4 | 24.1 | ... | ... | ... | ... |

Liquidity (Continued...)



Cash Flow Analysis (\$000)

| Year | Operating Cash Flow | Investing Cash Flow | Financial Cash Flow | Net Cash Flow |
|------------|---------------------|---------------------|---------------------|---------------|
| 2014 | -7,343 | 5,221 | ... | -2,122 |
| 2013 | -36,206 | 1,983 | 53,645 | 19,422 |
| 2012 | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... |
| 2010 | 30,745 | -44,938 | 5,502 | -8,691 |
| 5-Yr Total | -12,804 | -37,734 | 59,147 | 8,609 |

Investments

Investment Leverage Analysis (% of Surplus)

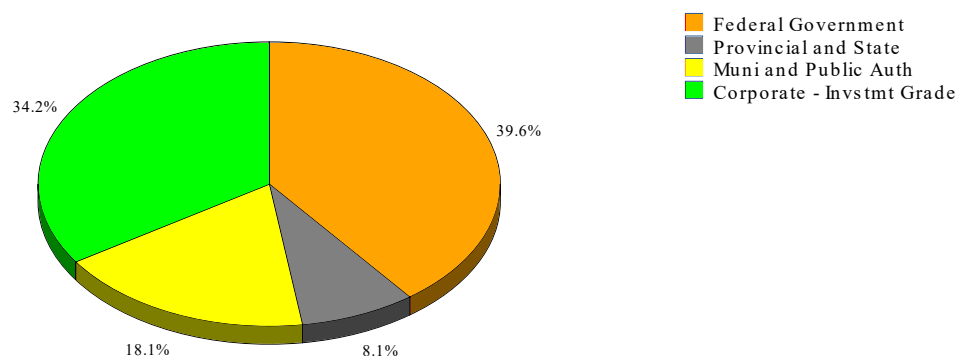
| Year | Company | | | | | | Industry Composite | |
|------|------------------------|-------------------------|-----------------------|---------------|------------------|------------------------|------------------------|---------------|
| | Below Investment Grade | Real Estate / Mortgages | Other Invested Assets | Common Shares | Preferred Shares | Affiliated Investments | Below Investment Grade | Common Shares |
| 2014 | ... | ... | 1.0 | ... | ... | 1.9 | ... | 4.8 |
| 2013 | ... | ... | 1.2 | ... | ... | 2.1 | 0.4 | 6.3 |
| 2012 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2011 | ... | ... | ... | ... | ... | ... | ... | ... |
| 2010 | ... | ... | 1.4 | ... | ... | ... | ... | ... |

Investments - Securities

Bond Distribution By Issuer Type

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------------|---------|---------|------|------|------|
| Bonds (\$000) | 212,700 | 214,236 | ... | ... | ... |
| Federal Government | 39.6 | 9.9 | ... | ... | ... |
| Provincial and State | 8.1 | 22.7 | ... | ... | ... |
| Muni and Public Auth | 18.1 | 33.3 | ... | ... | ... |
| Corporate - Invstmt Grade | 34.2 | 34.2 | ... | ... | ... |

2014 Bond Distribution By Issuer Type



Investments - Other Invested Assets

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------------|--------|--------|------|------|--------|
| Total Other Invested Assets (\$000) | 23,329 | 25,603 | ... | ... | 14,129 |
| Cash | 95.7 | 95.4 | ... | ... | 94.4 |
| Short-Term | ... | ... | ... | ... | ... |
| All Other | 4.3 | 4.6 | ... | ... | 5.6 |

History

Date Incorporated: N/A

Date Commenced: N/A

Domicile: Canada

Management

The affairs of AICL are managed under the direction of Hugh R. Sturgess. Mr. Sturgess, joined Arch Insurance Group in 2005 with responsibility for establishing management liability and professional liability product lines in Canada. Mr. Sturgess was appointed president and chief executive officer of Arch Insurance Canada Ltd. in July 2014. He has 15 years experience in various roles in the financial services industry, including as a senior analyst with the Royal Bank of Canada's Capital Markets division, and as an underwriter with Chubb Insurance Company of Canada. Mr. Sturgess has a Bachelor of Commerce from McGill University in Montreal, and holds the Canadian Securities and Chartered Insurance Professional designations.

Officers And Directors

Officers

President and CEO: Hugh R. Sturgess
SVP and CFO: Gale Lockbaum

SVP: Bryan Davies

Directors

Dennis Brand
Patrick Mailloux
Robert McDowell
David McElroy

Arthur Scace
Hugh R. Sturgess
Ross H. Totten
Gerald Wolfe (Chairman)

Regulatory

The 2015 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nathalie Begin, FCIA, FCAS, MAAA, Willis Towers Watson.

Balance Sheet (\$000)

| Admitted Assets | YE 2014 | YE 2013 | 2014 % | 2013 % |
|------------------------------------|---------|---------|--------|--------|
| Invest income due and accrued | 1,013 | 1,165 | 0.2 | 0.3 |
| Assets held for sale | ... | ... | ... | ... |
| Cash and short-term invest | 22,316 | 24,438 | 4.8 | 5.2 |
| Bonds and debentures | 212,700 | 214,236 | 45.6 | 46.0 |
| Mortgage loans | ... | ... | ... | ... |
| Preferred shares | ... | ... | ... | ... |
| Common shares | ... | ... | ... | ... |
| Investment properties | ... | ... | ... | ... |
| Pooled funds and other investments | ... | ... | ... | ... |
| Investments in subs and affil. | ... | ... | ... | ... |
| Total Invested Assets | 236,029 | 239,839 | 50.6 | 51.5 |
| Deferred policy acquisition costs | 14,111 | 15,357 | 3.0 | 3.3 |
| Intangible assets | 102 | 117 | ... | ... |
| Reins recoverables | 200,650 | 189,463 | 43.0 | 40.7 |
| All other assets | 15,408 | 21,113 | 3.3 | 4.5 |
| Total Assets | 466,300 | 465,889 | 100.0 | 100.0 |

Balance Sheet (\$000) (Continued...)

| Liabilities, Surplus and Other Funds | YE 2014 | YE 2013 | 2014 % | 2013 % |
|---|----------------|----------------|--------------|--------------|
| Unearned premiums and commissions | 75,091 | 76,711 | 16.1 | 16.5 |
| Unpaid claims and adj. expenses | 266,404 | 271,118 | 57.1 | 58.2 |
| Reserves required | ... | ... | ... | ... |
| Liabilities held for sale | ... | ... | ... | ... |
| Subordinated debt | ... | ... | ... | ... |
| Other liabilities and taxes | 22,238 | 18,890 | 4.8 | 4.1 |
| Total Liabilities | 363,733 | 366,719 | 78.0 | 78.7 |
| Preferred shares | ... | ... | ... | ... |
| Common shares | 114,768 | 114,768 | 24.6 | 24.6 |
| Contributed. surplus | 22,372 | 21,460 | 4.8 | 4.6 |
| Retained earnings | -38,415 | -40,545 | -8.2 | -8.7 |
| Reserves/other | 2,413 | 2,871 | 0.5 | 0.6 |
| Reserves for foreign exchange | ... | ... | ... | ... |
| Accumulated other comprehensive income (loss) | 1,429 | 616 | 0.3 | 0.1 |
| Non-controlling interest | ... | ... | ... | ... |
| Capital and Equity | 102,567 | 99,170 | 22.0 | 21.3 |
| Total Liabilities and Surplus | 466,300 | 465,889 | 100.0 | 100.0 |

Summary Of 2014 Operations (\$000)

| Statement of Income | 2014 |
|---|--------|
| Premiums earned | 17,089 |
| Claims incurred | 8,267 |
| Undwr expenses incurred | 4,661 |
| Other expense incurred | 7,940 |
| Net underwriting income | -3,779 |
| Net investment income | 3,255 |
| Gains(losses) from fluctuations in foreign exchange rates | 1,342 |
| Pre-tax oper income | 818 |
| Realized capital gains | 999 |
| Income taxes incurred | 145 |
| Net income | 1,672 |

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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