Report

of the

Examination of

Arch Mortgage Guaranty Company

Walnut Creek, California

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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April 7, 2017

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

ARCH MORTGAGE GUARANTY COMPANY
Walnut Creek, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Arch Mortgage Guaranty Company (AMG or the company), formerly known as PMI Mortgage Assurance Company, was conducted in 2011 as of December 31, 2010, by the Arizona Department of Insurance. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company’s invested assets portfolio as of December 31, 2015. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Arch Mortgage Guaranty Company was organized on December 21, 1966, under the name Commercial Loan Insurance Corporation (CLIC) as a mortgage guaranty insurer domiciled in the state of Wisconsin and began transacting business on May 1, 1967. Prior to August 2001, the company was a wholly owned subsidiary of WMAC Investment Corporation, then an affiliate of Leucadia National Corporation.

On August 6, 2001, PMI Mortgage Insurance Co. (PMI), an Arizona-domiciled insurance company and a wholly owned subsidiary of The PMI Group, Inc. (TPG), a publicly owned holding company incorporated in Delaware, acquired a 100% ownership of the company. The company's legacy business insured lending institutions and investors against financial loss resulting from the default of mortgage loans on various types of industrial and commercial real estate.

Effective November 11, 2009, the company redomiciled from Wisconsin to Arizona and changed its name to PMI Mortgage Assurance Co. (PMAC). During the first quarter of 2010, the company received regulatory approvals for its merger with WMAC Credit Insurance Corporation (WMAC), a former affiliate of the company and former subsidiary of PMI. The company's authorized capital was $2,000,000 consisting of 200,000 shares of $10 par value voting common stock. At the time, the company did not insure any policies. The plan of the company was to write new mortgage business in the states where PMI was unable to continue to write new mortgage insurance. The company was granted limited approval by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) as a mortgage guaranty insurer for loans eligible for their purchase, subject to certain conditions and restrictions.

On August 19, 2011, PMI and its wholly owned subsidiary, PMI Insurance Co. (PIC), were placed under a supervisory order by the Director of the Arizona Department of Insurance (the Director of AZ DOI) as a result of AZ DOI's determination of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI's June 30, 2011, financial condition. The order required the two companies, PMI and PIC, to cease issuing new mortgage guaranty insurance commitments at close of business on August 19, 2011, and to cease issuing mortgage insurance certificates under pending commitments at the close of business on September 16, 2011. Mr. Truitte D. Todd, of Tharp and Associates, Inc., was appointed by the Director as the interim Supervisor of PMI and PIC. Unlike PMI and PIC, PMAC was not placed under supervision by the AZ DOI and remained reasonably capitalized.

Effective August 22, 2011, Fannie Mae and Freddie Mac each suspended PMI, PIC and PMAC from their lists of approved mortgage insurers. These suspensions remain in effect. Although the company had transacted a small volume of business in a few states for a brief period in 2011, it ceased all new business writing pursuant to the terms set by these Government Sponsored Enterprises (GSEs), but continued coverage for its small book of existing residential mortgage insurance business.

On October 20, 2011, the Director requested and received an order (the Possession Order) to take full and exclusive possession and control of PMI by the Superior Court of Maricopa County, Arizona (AZ Court) as a result of the AZ DOI's determination that PMI did not meet certain capital requirements under Arizona law as of the third quarter of 2011. Concurrent with the granting of the Possession Order, the Director filed a "Complaint for the Appointment of Receiver and Injunction" to place PMI into rehabilitation. At that time, the Director also issued a "Notice of Determination, Order of Supervision and Notice of Appeal Rights" to the principal regulated reinsurance subsidiaries of TPG: PMI Reinsurance Co., PMI Mortgage Guaranty Co. and Residential Insurance Co. Truitte D. Todd was appointed Supervisor by the Director, with full authority to supervise the TPG-controlled PMI insurance companies on the Director's behalf.

On November 23, 2011, TPG filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. On February 6, 2012, TPG and the AZ DOI filed with the AZ Court a joint stipulation, where TPG withdrew any opposition to the AZ DOI's request for the appointment of a receiver.

On March 14, 2012, the AZ Court issued an Order for Appointment of Receiver and Injunction placing PMI into rehabilitation. The Director named Mr. Todd as the Special Deputy Receiver of PMI.

On January 30, 2014, Arch U.S. MI Holdings Inc. (Arch MI Holdings), an indirect subsidiary of Arch Capital Group Ltd. (ACGL), completed the acquisition of the company from its owner, PMI, and acquired PMI's mortgage insurance platform and related assets. Upon the acquisition, the company's name was changed to Arch Mortgage Guaranty Company and the company was redomiciled to Wisconsin. The company was repurposed by its new ownership to serve the non-GSE market for mortgage insurance. Under current market conditions, this consists mainly of insurance on mortgages that a financial institution intends to retain rather than sell to Fannie Mae or Freddie Mac.

The company is licensed to transact residential mortgage guaranty insurance business in all 50 U.S. states and the District of Columbia.

In 2015, the company wrote direct premium in the following states:

Ohio	$ 72,360	25.8%
New York	64,069	22.9
Texas	56,914	20.3
North Carolina	31,133	11.1
Massachusetts	15,878	5.7
All others	39,929	14.2
Total	$280,283	100.0%

Until the fourth quarter of 2014, the company's operations were limited to servicing its existing portfolio of policies. At the beginning of 2015 the company began to offer mortgage insurance coverage for mortgage loans that originators intended to retain in their portfolios or to include in private securitizations.

The company's products are marketed through salespeople that are employees of Arch U.S. MI Services Inc. (Arch MI Services), a wholly owned subsidiary of Arch Mortgage Insurance Company (Arch MI). In addition, products offered to credit unions are marketed through a sales force employed by the CUNA Mutual Group (CUNA Mutual) under a distribution and services. The combined sales team utilizes marketing collateral developed by the Arch MI marketing group.

The following table is a summary of the net insurance premiums written by the company in 2015. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	$280,283	$0	$350,059	$(69,774)
Total All Lines	$280,283	$0	$350,059	$(69,774)

III. MANAGEMENT AND CONTROL

Board of Directors

AMG's board of directors consists of six members. At each annual meeting, the shareholders elect directors to serve until the next annual shareholder meeting. Officers are elected at the board of directors meeting following each annual shareholder meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members do not receive any compensation for serving on the board. Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expiry
Andrew T. Rippert Hamilton, Bermuda	Chief Executive Officer, Global Mortgage Group Arch Capital Group Ltd.	2017
Dennis R. Brand Jersey City, New Jersey	Senior Executive Vice President, Chief Administrative Officer Arch Insurance Group, Inc.	2017
Cheryl A. Feltgen Danville, California	Executive Vice President, Chief Risk Officer Arch Mortgage Insurance Company	2017
David E Gansberg Danville, California	President and Chief Executive Officer Arch Mortgage Insurance Company	2017
Thomas H. Jeter Mill Valley, California	Executive Vice President, Chief Financial Officer Arch Mortgage Insurance Company	2017
Mark D. Lyons Hamilton, Bermuda	Executive Vice President, Chief Financial Officer Arch Capital Group Ltd.	2017

Officers of the Company

The officers serving at the time of this examination are as follows:

Officer	Office	2015 Compensation*
David E. Gansberg	President and Chief Executive Officer	$1,504,230
Thomas H. Jeter	Executive Vice President, Chief Financial Officer and Treasurer	577,663
Christopher A. Hovey	Executive Vice President, Chief Operating Officer	639,196
Andrew D. Cameron	Executive Vice President, General Counsel and Secretary	607,814
Cheryl A. Feltgen	Executive Vice President, Chief Risk Officer	695,229
Kenneth S. Dailey	Vice President, Actuarial Services	320,200
Angela A. Karanas	Senior Vice President, National Underwriting Operations	466,481

* The 2015 compensation does not include employer-paid health insurance premiums, cell phone and car use allowances, and moving expenses.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company's board has not appointed any committees.

Management and Operating Committees

The company has established the following management and operating committees:

Enterprise Risk Management Committee
Cheryl Feltgen, Executive Vice President, Chief Risk Officer, Chair
David Gansberg, President and Chief Executive Officer
Christopher Hovey, Executive Vice President, Chief Operating Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer
Andrew Cameron, Executive Vice President, General Counsel and Secretary
Angela Karanas, Senior Vice President, National Underwriting Operations
Janet Parker, Senior Vice President, Risk Management

Pricing Committee
Cheryl Feltgen, Executive Vice President, Chief Risk Officer, Chair
John Hanken, Vice President, Risk Analytics and Pricing
David Gansberg, President and Chief Executive Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer
Janet Parker, Senior Vice President, Risk Management

IT Governance Committee
Prashant Nema, Senior Vice President, Chief Information Officer, Chair
Christopher Hovey, Executive Vice President, Chief Operating Officer
Brenda Eastham, Vice President, Digital Products Management
Todd Berman, Vice President, Chief Compliance and Information Systems Officer
Scott Kelly, Vice President, Director of Information Technology
Joseph Vaithara, Director of Software Engineering
Cindy Yuan, Vice President, Software Development
Scott Remesburg, Vice President, Program Management Operations

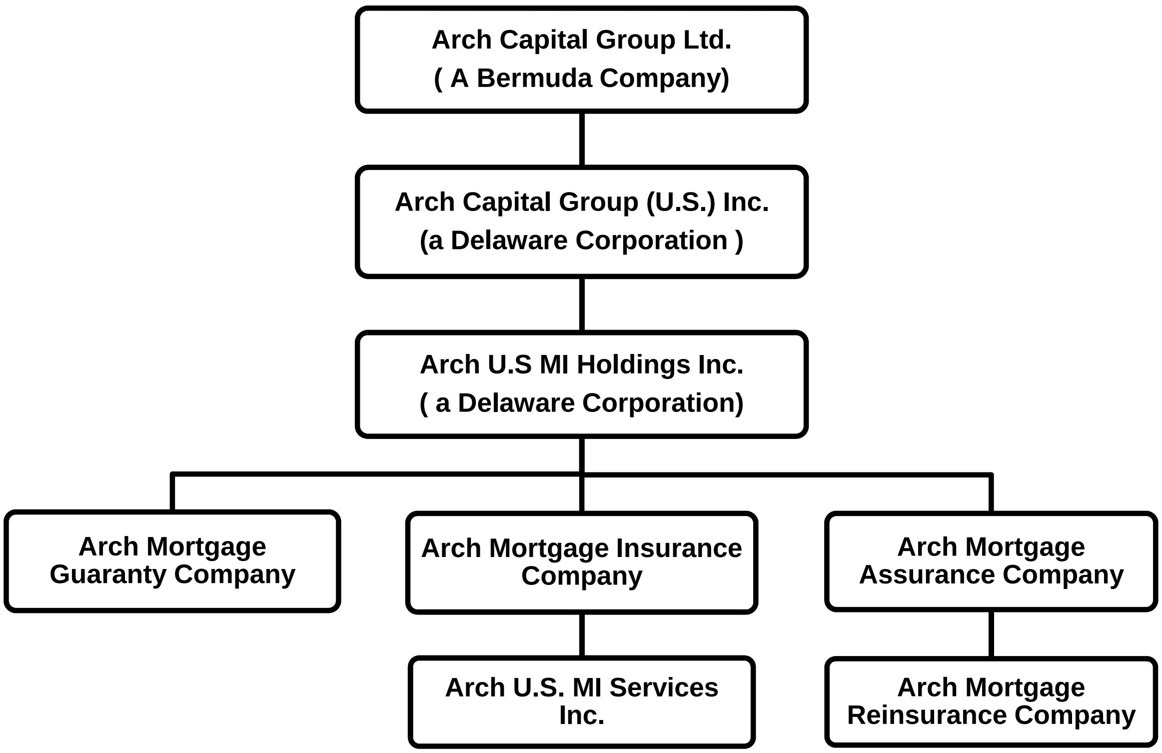
IT Steering Committee
Prashant Nema, Senior Vice President, Chief Information Officer, Chair
David Gansberg, President and Chief Executive Officer
Christopher Hovey, Executive Vice President, Chief Operating Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer

Privacy Committee
Todd Berman, Vice President, Chief Compliance and Information Systems Officer, Chair
Angela Karanas, Senior Vice President, National Underwriting Operations
Kevin Frank, Vice President, Policy Administration and Claims
Prashant Nema, Senior Vice President, Chief Information Officer
Scott Kelly, Vice President, Director of Information Technology
Cindy Yuan, Vice President, Software Development
Scott Remesburg, Vice President, Program Management Operations
Brenda Eastham, Vice President, Digital Products Management
Jerry Brannon, Manager, Administrative Services
Jesse Gantry, Vice President, Assistant Corporate Controller and Chief Accounting Officer
Greg Donovan, Senior Director, Treasury Operations
David Gorbach, Senior Director, Financial Planning and Analysis
Julia Gosnell, Director, Corporate Procurement
William Horning, Vice President, Corporate Communication and Capital Planning
Babusha Goel, Director, Accounting Expense Management and Accounts Payable
William Levinthal, Senior Vice President, Deputy General Counsel and General Legal
Monica Kamio, Vice President, Human Resources
Cheryl Feltgen, Executive Vice President, Chief Risk Officer
Janet Parker, Senior Vice President, Risk Management
Brian Roesch, Vice President, Sales Operations
Kevin Jensen, Vice President, Internal Audit

IV. AFFILIATED COMPANIES

AMG is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart

Organizational Chart
As of December 31, 2015



Arch Capital Group Ltd.

Arch Capital Group Ltd. (ACGL), a Bermuda publicly traded company, is a global insurer and reinsurer with operations in Bermuda, the United States, Canada, Europe, Australia and South Africa. ACGL indirectly acquired 100% ownership of Arch MI, Arch Mortgage Reinsurance Company (Arch MI Re), Arch Mortgage Assurance Company (Arch MA) and AMG on January 30, 2014, from PMI Mortgage Insurance Co. and CMFG Life Insurance Company, a CUNA Mutual Group company. As of December 31, 2015, the audited consolidated financial statements of ACGL reported assets of $23.2 billion, liabilities of $16.0 billion and shareholders’ equity attributable to ACGL's direct or indirect controlling financial interest of $7.1 billion. Operations for 2015 produced net income of $526.6 million.

Arch Capital Group (U.S.) Inc.

Arch Capital Group (U.S.) Inc. (ACG US) is a wholly owned, indirect subsidiary of ACGL. As of December 31, 2015, the unaudited consolidated statutory financial statements of ACG US reported assets of $4.7 billion, liabilities of $3.5 billion and policyholders' surplus of $1.2 billion. Operations for 2015 produced net income of $110 million.

Arch U.S. MI Holdings Inc.

Arch U.S. MI Holdings Inc. (Arch MI Holdings) is a wholly owned subsidiary of ACG US, which is a wholly owned, indirect subsidiary of ACGL. Arch MI Holdings owns 100% of the shares of Arch MI, AMG and Arch MA. As of December 31, 2015, the non-audited financial statements of Arch MI Holdings reported assets of $374.1million, liabilities of $95.1 million and shareholders' equity of $279 million. Operations for 2015 produced a GAAP net loss of $41 million.

Arch Mortgage Insurance Company

Arch Mortgage Insurance Company was incorporated in 1980 as an Illinois-domiciled mortgage guaranty insurer under the name TIMIC Mortgage Insurance Company. On April 14, 1994, CUNA Mutual Investment Corporation (CMIC) purchased 100% of the capital stock of TIMIC Mortgage Insurance Company. Concurrent with CMIC's acquisition, the name of the insurer was changed to CMG Mortgage Insurance Company (CMG MI). On June 23, 1994, PMI purchased from CMIC 45% of the issued and outstanding stock of CMG MI, and on September 8, 1994, CMIC and PMI executed a CMG MI Shareholders Agreement that established a contractual joint venture arrangement and joint management of CMG MI under a strategic alliance of CMIC and PMI.

CMG MI resumed writing new business in 1994 and redomiciled to Wisconsin effective November 30, 1994. PMI's ownership interest in CMG MI increased to 50% in 1998 through PMI's purchase of 200,000 additional shares of capital stock and, after that transaction, CMIC and PMI each held equal 50% ownership interests in the capital stock of CMG Mortgage

Insurance Company. CMIC transferred its 50% ownership in CMG MI to CUNA Mutual Insurance Society (CMIS) through a stock dividend on June 30, 2009.

In June 2011, the board of directors of CUNA Mutual Insurance Society approved a plan to convert CMIS from a mutual insurance company to a mutual insurance holding company. In September 2011, policyholders and the Iowa Insurance Commissioner approved the plan to reorganize CMIS into a mutual holding company, to be effective on January 31, 2012. Under the reorganization plan, CMIS was renamed CMFG Life Insurance Company.

On August 19, 2011, PMI Mortgage Insurance Co. and its wholly owned subsidiary, PMI Insurance Co., were placed under a supervisory order by the Arizona Director of Insurance as a result of the AZ DOI's determination of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI's June 30, 2011, operational results. Although PMI was suspended as an approved mortgage insurer by Fannie Mae and Freddie Mac effective August 22, 2011, these actions did not impact the stand-alone operations of CMG MI.

On January 30, 2014, Arch MI Holdings, an indirect subsidiary of Arch Capital Group Ltd., completed the acquisition of CMG MI from PMI and CMFG Life Insurance Company and acquired PMI's mortgage insurance platform and related assets. Following the acquisition, CMG MI's name was changed to Arch Mortgage Insurance Company.

As of December 31, 2015, the audited statutory financial statements of Arch MI reported assets of $436,418,566, liabilities of $301,933,826 and policyholders' surplus of $134,484,740. Operations for 2015 produced a statutory net loss of $34,843,210.

Arch U.S. MI Services Inc.

Arch U.S. MI Services Inc. is a wholly owned, non-insurer subsidiary of Arch MI and was established to provide operational and technological support to the other companies within the Arch MI Holdings consolidated group. The vast majority of employees that provide operational, financial and legal services for the Arch MI Holdings companies are employed by Arch MI Services. Arch MI Services entered into a services agreement with AMG effective January 30, 2014. The subject matter of the agreement is described further in the "Agreements with Affiliates" section of this report. As of December 31, 2015, the non-audited financial statements of Arch MI Services reported assets of $87 million, liabilities of $21 million and shareholders' equity of $66 million. Operations for 2015 produced net income of $1 million.

Arch Mortgage Assurance Company

Arch Mortgage Assurance Company (Arch MA) was organized in 1969 as a California-domiciled mortgage guaranty insurer under the name Investors Mortgage Insurance Company of California. The name was changed to Investors Equity Insurance Company, Inc. (IEIC) effective September 23, 1980. The company remained a dormant corporation until May 12, 1981, at which time it commenced writing mortgage guaranty insurance on second mortgages. In December 1981, Investors Mortgage Insurance Holding Company (IMIHC) acquired control of 100% of the capital stock of IEIC when IEIC's parent merged into IMIHC. IEIC ceased writing new business in 1986. In 1994, following the acquisition of IMIHC by CUNA Mutual Investment Corporation, IMIHC paid to CMIC an extraordinary dividend consisting of 100% of the capital stock of IEIC. In 1999, IEIC changed its name to CMG Mortgage Assurance Company (CMGA) and on June 1, 2000, CMGA redomiciled from California to Wisconsin.

Effective October 1, 2000, PMI purchased from CMIC 50% of the capital stock of CMGA, and CMGA became a jointly owned subsidiary of CMIC and PMI. CMIC transferred its 50% ownership in CMGA to CMIS through a stock dividend on June 30, 2009. CMGA is licensed as a mortgage guaranty insurer. The joint venture ownership of CMGA was established to provide insurance coverage for junior lien, second-mortgage loans issued by credit unions. CMGA began writing business in the third quarter of 2001. Due to unfavorable results in this line of business, the company's board of directors agreed to discontinue writing business effective March 31, 2008.

On January 30, 2014, CMGA was indirectly acquired by ACGL and, upon the acquisition, the name was changed to Arch Mortgage Assurance Company.

As of December 31, 2015, the audited consolidated financial statements of Arch MA reported assets of $14,115,666, liabilities of $238,302 and policyholders' surplus of $13,877,364. Operations in 2015 produced a statutory net loss of $66,305.

Arch Mortgage Reinsurance Company

Arch Mortgage Reinsurance Company (Arch MI Re) was incorporated under the name CMG Mortgage Reinsurance Company (CMG Re) on May 27, 1999, as a jointly owned subsidiary of CMIC and PMI. CMIC and PMI each contributed initial capital of $1.5 million to CMG Re in 1999, and CMG Re commenced business August 26, 1999. On June 30, 2009, it became a wholly owned subsidiary of CMGA and received $5.5 million in capital contributions from CMGA in 2009 after the ownership transfer. On January 30, 2014, CMG Re was indirectly acquired by ACGL and, following the acquisition, the name was changed to Arch Mortgage Reinsurance Company. Arch MI Re is authorized as a mortgage guaranty insurer, licensed solely in the state of Wisconsin. Prior to its acquisition by ACGL, Arch MI Re provided excess of loss reinsurance to Arch MI under the terms of an interaffiliate reinsurance agreement. Per this agreement, Arch MI Re assumed from Arch MI mortgage loan coverage in excess of 25% of the original principal balance for individual mortgage loans insured on a direct basis by Arch MI, covering up to 25% of each insured mortgage loan written by Arch MI. However, effective January 30, 2014, Arch Ml Re amended its reinsurance agreement with Arch Ml to specify that all cessions under the agreement will be determined net of the quota share reinsurance agreements between Arch Ml and an indirect affiliate, Arch Reinsurance Ltd., and between Arch MI and CUMIS Reinsurance Company. This amendment had the effect of discontinuing all reinsurance by Arch MI Re on non-delinquent loans as of January 30, 2014. As of December 31, 2015, Arch MI Re is no longer assuming new risk.

As of December 31, 2015, the audited statutory financial statements of Arch MI Re reported assets of $21,843,171, liabilities of $8,268,612 and policyholders' surplus of $13,574,559. Operations for 2015 produced statutory net income of $1,325,377.

Agreements with Affiliates

Surplus Notes

On December 16, 2014, this office approved a Contribution Note (Note) in the amount of $7,500,000 issued by AMG to ACG US in exchange for receipt of the principal amount with an annual interest rate of 6.5%. Interest payments on the Note are due annually on

December 19, with the prior approval of this office. Principal is due on December 19, 2044. The Note is redeemable on December 19, 2019.

Services Agreement

Effective January 30, 2014, AMG entered into a services agreement with Arch MI Services, a wholly owned subsidiary of Arch MI. Under this agreement, Arch MI Services provides various services to AMG, including accounting, data processing, systems work, records information technology, employee administration, legal services, financial reporting, tax returns and other services such as office space, general overhead items, advertising, allocation of expenses, arranging of separate insurance coverage and collection and handling of insurance premiums. AMG is liable to compensate Arch MI Services for the cost of the provided services by remitting a payment for the amount billed. AMG reimburses Arch MI Services for all reasonable and documented out-of-pocket expenses. The agreement can be terminated by giving at least 90 days' written notice or upon resolution approved by the boards of directors of the company, Arch MI Services and Arch MI Holdings expressing intent to terminate the agreement.

Investment Manager Agreement

The company has an investment manager agreement with an indirect affiliate, Arch Investment Management Ltd. (AIM), effective January 30, 2014, and amended effective January 20, 2015, for investment management services provided to AMG and affiliates. Under this agreement AIM acts as the company's investment manager and assumes the responsibilities and obligations of a fiduciary with respect to the services subject of the agreement including investment advisory and oversight, investment market risk monitoring, investment credit risk monitoring, investment compliance monitoring, and asset allocation monitoring. AIM provides appraisals of investment accounts, performance tabulations, compliance certifications, summaries of purchases and sales and any other reports agreed upon from time to time. The company compensates AIM by payment of a monthly asset management fee at an annual rate based on whether the services provided by AIM for the assets under management in the investment accounts are Investment Consulting and Oversight Services, or Direct Investment

Management Services, with such allocation set forth in the investment manager's invoice. The agreement can be terminated by either party at any time upon 45 days' prior written notice.

Tax Sharing Agreement

Effective November 1, 2014, AMG entered into a Tax Sharing Agreement with ACG US. Under this agreement, ACG US files a consolidated U.S. Federal Income Tax Return that includes Arch MI and other subsidiaries of the ACG US holding company group, whereby the income taxes are computed as if each subsidiary filed a separate tax return on a stand-alone basis, utilizing the applicable Group consolidated tax rate for the applicable taxable year or part thereof during which such subsidiary was a member of the Group. Tax payments are payable directly to the immediate parent, Arch MI Holdings. Arch MI Holdings will thereafter make any necessary payments of taxes to ACG US. Taxes payable to the parent are due within 90 days of the date the Group tax liability is paid. A credit is given to each company for any net operating losses or other items used in the consolidated tax return filed by ACG US, to the extent those losses or items may be utilized by each company on a separate return basis. The agreement also addresses the filing of consolidated state income tax returns on a state-by-state basis in a manner consistent with the approach provided with respect to the U.S. Federal Income Tax Return.

V. REINSURANCE

In certain jurisdictions a direct writer of mortgage guaranty insurance is limited to maximum risk retention equal to 25% of the borrower's indebtedness for the original principal balance of the insured loan. Reinsurance treaties were undertaken by AMG, largely for regulatory compliance purposes, to enable AMG to satisfy limitations established by various jurisdictions regarding the proportionate amount of risk that a direct writer of mortgage guaranty insurance is permitted to retain for its own account.

The reinsurance portfolio and strategy of Arch Mortgage Guaranty Company is described below.

Nearly a year after the acquisition of the company by ACGL, AMG entered into quota share reinsurance agreements with indirect affiliates, Arch Reinsurance Company (ARC) and Arch Reinsurance Ltd. (ARL), effective January 1, 2015. Under the quota share reinsurance agreement with ARC, AMG cedes a portion of all mortgage insurance policies written by AMG, after the effective date, to ARC. Under the quota share reinsurance agreement with ARL, AMG cedes a portion of risk to ARL of all mortgage insurance policies written by AMG, after the effective date, as well as for all in-force mortgage insurance policies written by AMG prior to the effective date, net of cessions to ARC under the ARC reinsurance agreement. Pursuant to a Stipulation and Order issued by this office dated January 12, 2015, in connection with the ARL reinsurance agreement, AMG agreed to certain terms and conditions for this office's acceptance of credit for reinsurance ceded to ARL and any other affiliated reinsurer domiciled in a jurisdiction outside of the United States of America.

Both the ARC and ARL reinsurance agreements with AMG were amended, effective January 1, 2016, to reflect the increase in the ceding commission paid to AMG from 28.5% to 29.0%.

AMG does not have reinsurance assumption agreements.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of AMG as reported to the Commissioner of Insurance in the December 31, 2015, annual statement. If any adjustments were made as a result of the examination, they would be noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Arch Mortgage Guaranty Company
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$48,851,010	$	$48,851,010
Cash, cash equivalents, and short-term investments	903,164		903,164
Receivables for securities	1,356		1,356
Securities lending reinvested collateral assets			
Investment income due and accrued	474,113		474,113
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	21,141		21,141
Current federal and foreign income tax recoverable and interest thereon	154,993		154,993
Net deferred tax asset	429,035		429,035
Receivable from parent, subsidiaries, and affiliates	4,870		4,870
Write-ins for other than invested assets:			
Statutory deposit in Guam	60,000		60,000
Non-affiliates receivables	18,573		18,573
Net licenses purchased	5,635,000	5,635,000	
Total Assets	$56,553,255	$5,635,000	$50,918,255

Arch Mortgage Guaranty Company
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Losses		$ 43,530
Loss adjustment expenses		1,425
Other expenses (excluding taxes, licenses, and fees)		134,632
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,099
Unearned premiums		19,266
Ceded reinsurance premiums payable (net of ceding commissions)		42,188
Remittances and items not allocated		904
Payable to parent, subsidiaries, and affiliates		63,209
Write-ins for liabilities:		
Contingency reserve		1,033,799
Premium refund reserve		1,148
Total liabilities		1,341,200
Common capital stock	$ 3,000,000	
Write-ins for other than special surplus funds:		
Dividends to stockholders	(19,232,651)	
Surplus notes	7,500,000	
Gross paid in and contributed surplus	99,077,758	
Unassigned funds (surplus)	(40,768,052)	
Surplus as regards policyholders		49,577,055
Total Liabilities and Surplus		$50,918,255

Arch Mortgage Guaranty Company
Summary of Operations
For the Year 2015

Underwriting Income		
Premiums earned		$ 67,158
Deductions:		
Losses incurred	$ 12,778	
Loss adjustment expenses incurred	1,229	
Other underwriting expenses incurred	365,821	
Write-ins for underwriting deductions:		
Increase of contingency reserve	33,579	
Release of contingency reserve	(37,873)	
Total underwriting deductions		375,534
Net underwriting gain (loss)		(308,376)
Investment Income		
Net investment income earned	(152,533)	
Net realized capital gains (losses)	141,551	
Net investment gain (loss)		(10,982)
Other Income		
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(319,358)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(319,358)
Federal and foreign income taxes incurred		(347,584)
Net Income		$ 28,226

Arch Mortgage Guaranty Company
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$ (32,889)
Net investment income			(410,408)
Total			(443,297)
Commissions, expenses paid, and aggregate write-ins for deductions		$ 422,395	
Federal and foreign income taxes paid (recovered)		(348,960)	
Total deductions			73,435
Net cash from operations			(516,732)
Proceeds from investments sold, matured, or repaid:			
Bonds	$60,990,703		
Total investment proceeds		60,990,703	
Cost of investments acquired (long-term only):			
Bonds	65,123,658		
Miscellaneous applications	1,356		
Total investments acquired		65,125,014	
Net cash from investments			(4,134,311)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		26,903	
Net cash from financing and miscellaneous sources			26,903
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(4,624,140)
Cash, cash equivalents, and short-term investments:			
Beginning of year			5,527,304
End of Year			$ 903,164

Arch Mortgage Guaranty Company
Policyholders' Position Calculation
December 31, 2015

Surplus as regards policyholders		$49,577,055	
Contingency reserve		1,033,799	
Total policyholders' position			$50,610,854
Net minimum policyholders' position:			
Individual loans:			
Loan-to-value more than 75%	$112,206		
Total individual loans		112,206	
Deduct aggregate minimum policyholder position for certain loans with established reserves		2,335	
Total minimum policyholders' position			109,871
Excess of Total Policyholders' Position over Minimum Policyholders' Position			$50,500,983

Arch Mortgage Guaranty Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2015	2014	2013	2012	2011
Surplus, beginning of year	$49,119,794	$25,627,310	$30,909,697	$29,937,132	$29,999,249
Net income	28,226	(199,865)	(81,172)	1,238,348	203,959
Change in net unrealized capital gains/losses					51,458
Change in net deferred income tax	429,035				(806,042)
Change in nonadmitted assets					561,066
Change in surplus notes		7,500,000	(5,000,000)		
Capital changes:					
Paid in		1,000,000			
Surplus adjustments:					
Paid in		34,425,000			
Dividends to stockholders		(19,232,651)			
Write-ins for gains and (losses) in surplus:					
Increase of contingency reserves			(267,543)	(265,783)	(121,040)
Release of contingency reserve			43,088		48,482
Prior period surplus adjustment			23,241		
Surplus, End of Year	$49,577,055	$49,119,794	$25,627,310	$30,909,697	$29,937,132

Arch Mortgage Guaranty Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2015

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2015	2014	2013	2012	2011
#1	Gross Premium to Surplus	1.0%	1.0%	2.0%	2.0%	2.0%
#2	Net Premium to Surplus	0.0	1.0	2.0	2.0	2.0
#3	Change in Net Premiums Written	-122.0*	-22.0	-27.0	-13.0	999.0*
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	511.0*	261.0*	117.0*	0.0	0.0
#6	Investment Yield	0.0*	0.0*	0.0*	0.9*	1.6*
#7	Gross Change in Surplus	1.0	92.0*	-17.0*	3.0	0.0
#8	Change in Adjusted Surplus	1.0	-76.0*	-1.0	3.0	0.0
#9	Liabilities to Liquid Assets	3.0	3.0	5.0	5.0	3.0
#10	Agents' Balances to Surplus	0.0	0.0	0.0	0.0	0.0
#11	One-Year Reserve Development to Surplus	0.0	0.0	0.0	0.0	0.0
#12	Two-Year Reserve Development to Surplus	0.0	0.0	0.0	0.0	0.0
#13	Estimated Current Reserve Deficiency to Surplus	0.0	0.0	0.0	0.0	0.0

Ratio No. 3 measures the change in net premium written from the prior year. In 2015 net premium written decreased by 122% compared to 2014 as a result of an increase in ceded premiums under the new reinsurance contract agreements with reinsurers effective January 1, 2015.

Ratio No. 5 measures the company's profitability over the previous two-year period. In 2011, the company ceased writing new business, which resulted in a decline in premiums earned while other underwriting expenses incurred remained relatively high. The company reported statutory net underwriting losses in 2013 and 2014 and statutory net income in 2015.

Ratio No. 6 measures the average return on the company's investments. A large portion of the company's portfolio is allocated to U.S. government and tax-exempt municipal bonds, which typically earn lower investment yields compared to equity securities. The low interest rate environment nationwide also contributed to the exceptional results.

Ratio No.7 represents the change in policyholders' surplus versus the prior year. The decrease in policyholders' surplus in 2013 was due to unfavorable operating results. In addition, the company paid approximately $5.3 million to redeem a surplus note payable to its former parent, PMI. In 2014, AMG's surplus increased by $23.5 million due to capital contributions of $34.4 million from Arch MI Holdings, issuance of a surplus note in the amount of $7.5 million to ACG US, and the purchase by Arch MI Holdings of 100,000 shares of the company's common stock valued at $1 million. The surplus increase was partially offset by $19.2 million of dividends paid to the company's former shareholder, PMI.

Ratio No. 8 measures improvement or deterioration in the insurer's financial condition during the year and concentrates on the effect of operational results. The exceptional results in 2014 were due to the capital contribution of $34.4 million from Arch MI Holdings, the issuance of a $7.5 million surplus note to ACG US, and the purchase by Arch MI Holdings of 100,000 shares of the company's common stock valued at $1 million.

Growth of Arch Mortgage Guaranty Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2015	$50,918,255	$1,341,200	$49,577,055	$ 28,226
2014	50,579,613	1,459,819	49,119,794	(199,866)
2013	26,911,144	1,283,835	25,627,310	(81,172)
2012	32,407,686	1,497,989	30,909,697	1,238,348
2011	30,832,461	895,329	29,937,132	203,959
2010	30,310,304	311,055	29,999,249	1,211,750

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2015	$280,283	$(69,774)	$ 67,158	20.9%	-518.1%	-497.3%
2014	324,403	324,403	406,773	-3.3	267.0	263.8
2013	416,414	416,414	535,086	8.5	248.9	257.3
2012	497,290	572,026	629,923	0.0	52.4	52.4
2011	723,059	654,218	242,080	0.0	63.8	63.8
2010	0	0	2,697	0.0	0	0.0

By the third quarter of 2011, AMG had no remaining legacy business and began writing new business, particularly in those states and U.S. territories in which PMI Mortgage Insurance Co. was unable to write due to its legal inability or the unwillingness of those governmental units to grant a waiver of relevant capital and surplus requirements. In August 2011, the writing of new business ceased due to the company being suspended by Fannie Mae and Freddie Mac as an eligible mortgage insurer for loans to be acquired by these government-sponsored enterprises. The company continued to service the existing policies, thereafter, resulting in a gradual decrease in premium written during the past five years.

In 2013 and 2014, the company reported unusually high expense ratios due to the decrease in premium written as compared to ongoing operating expenses.

As previously noted, on January 30, 2014, Arch U.S. MI Holdings Inc., an indirect subsidiary of Arch Capital Group Ltd., completed the acquisition of the company from its owner, PMI, and acquired PMI's mortgage insurance platform and related assets. Upon the acquisition, the company's name was changed to Arch Mortgage Guaranty Company and the company was redomiciled to Wisconsin. The company was repurposed by its new ownership to serve the non-GSE market for mortgage insurance. In 2015, the expense ratio decreased noticeably due to lower net premiums written due to the increased ceded premiums under the reinsurance contracts with ARC and ARL, partially offset by lower underwriting expenses related to operating fees and ceding commissions received.

During the period under examination, the company's surplus increased by 65.3%, primarily due to the capital contribution made by the parent company during the acquisition of the company in 2014. The company reported favorable results from operations in three out of five years during the 2011 to 2015 period.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three comments and no recommendations in the Arizona Department of Insurance's previous examination report, which was conducted as of December 31, 2010.

Comments contained in the last examination report are summarized as follows:

1. Subsequent Events—PMI was placed under AZ DOI 's regulatory supervision due to non-compliance with the required minimum policyholders' position under Arizona statute.

2. Contingency Reserve—Mortgage insurers are required by statute to establish a contingency reserve from unassigned funds to provide a cushion against the effect of any future adverse economic cycles. The contingency reserve is increased annually by an amount equal to 50% of earned premiums. If in any year the Company's actual incurred losses and loss expenses exceed 35% of the corresponding earned premium, withdrawals from the contingency reserve may be made upon approval by the ADOI. The annual contribution to the contingency reserve for each calendar year must be maintained for 10 years after which it is released to unassigned funds. Contingency reserves of $60,344 were released to unassigned surplus in 2010.

3. Minimum Policyholders Position—The Company is required to maintain a minimum policyholders' surplus position in accordance with the formula set forth in A.R.S. § 20-1550. The minimum policyholders position ("MPP") is generally calculated based on the type of loans in force and the coverage percentage with credit allowed for authorized reinsurance and established claim reserves. The Company is prohibited from writing new business in the event its MPP exceeds its surplus as regards to policyholder plus contingency reserves. At December 31, 2010, the Company's excess of policyholders' position over MPP was $23,403,809.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Executive Compensation

The state of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled “Report of Executive Compensation” pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer, and the four most highly compensated officers or employees other than the chief executive officer. In addition, the report requires disclosure of the compensation of all executive officers whose compensation exceeds specified amounts. The company completed this form disclosing employees with compensation over $150,000. All remuneration paid or accrued for services on behalf of each reportable employee should be included in the Report on Executive Compensation.

The examiners’ review of the executive compensation revealed that the company did not include in the Report on Executive Compensation the employer-paid portion of health insurance benefits, moving expenses, and cell phone and corporate car use allowances. According to the company’s management, AMG included the employer-paid portion of health insurance benefits in the 2016 Report of Executive Compensation; however, the remaining items were still not included in the Report on Executive Compensation. It is recommended that the company properly complete the Report on Executive Compensation as required by s.611.63 (4), Wis. Stat.

Actuarial Report

The NAIC 2015 Annual Statement Instructions require the following concerning the appointed actuary’s Actuarial Report: “The Actuarial Report should be consistent with the documentation and disclosure requirement of Actuarial Standard of Practice No.41. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to company management, the board of directors, the regulator, or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. The technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions."

The examination team reviewed the content and presentations of documentation in the company's Actuarial Report and found that they are not complete and are not in compliance with the NAIC requirements. Many of the figures presented in the Actuarial Report are supported by work done outside of the report. Correspondence with the company's appointed actuary confirms that, while an effort was made to include the most important factors in the report, other support was omitted due to concerns about the number of pages in the reports. There is no prescribed limit to the size of the reports, so the number of pages should not be a concern. Although the underlying methodology executed by the appointed actuary is very familiar to all actuaries (i.e., frequency/severity techniques), the use of an unpublished and unfamiliar methodology for determining factors and assumptions made it difficult to evaluate the work absent a detailed methodology discussion in the Actuarial Report. It is recommended that future actuarial reports contain sufficient documentation for another actuary practicing in the same field to evaluate the entirety of the work by providing a thorough description of the methodology used including how it works and why it is appropriate for the dataset.

Actuarial Opinion Summary

The Actuarial Opinion Summary requires the appointed actuary to disclose, on a gross and net basis, the appointed actuary's point estimate, when calculated, and the appointed actuary's range, when calculated, and compare these to the carried reserves. Items 5 (A) through 5 (D) in the NAIC Actuarial Opinion Summary Instructions clarify that there is no requirement to produce both a range and a point estimate. However, the reserve estimates presented in the Actuarial Opinion Summary must follow the appointed actuary's analysis (that is, if the appointed actuary prepares both a point estimate and a range in the analysis, then both the point estimate and the range must be disclosed in the Actuarial Opinion Summary). The appointed actuary provided only a range in the Actuarial Opinion Summary and filled in "NA" for the point estimate. The company's carried reserves, however, are based solely on the appointed actuary's point estimate. The examination team finds that the company's Actuarial Opinion Summary is not in compliance with NAIC requirements. It is recommended that future Actuarial Opinion Summaries include all elements for which the appointed actuary provides an estimate, including both a range and point estimate if both are calculated in the appointed actuary's analysis.

VIII. CONCLUSION

Arch Mortgage Guaranty Company is a direct wholly owned subsidiary of Arch U.S. MI Holdings Inc. and an indirect wholly owned subsidiary of Arch Capital Group Ltd., its ultimate controlling person. The company provides mortgage insurance products and services to residential mortgage originators and investors throughout the United States. By its choice of business plan, the company is not approved as an eligible mortgage insurer by either the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and, accordingly, is not subject to these Government Sponsored Enterprises' Private Mortgage Insurer Eligibility Requirements.

Policyholders' surplus has increased from $29,999,249 as of year-end 2010 to $49,577,055 as of year-end 2015, an increase of 65.3%. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2010, when policyholders' surplus was last verified by examination, to December 31, 2015:

Policyholders' surplus, December 31, 2010	$29,999,249
Surplus paid-in	34,425,000
Dividends to stockholders	(19,232,651)
Change in surplus notes	2,500,000
Net income/(loss)	1,189,496
Capital paid-in	1,000,000
Increase in contingency reserves	(654,366)
Change in nonadmitted assets	561,066
Change in net deferred income tax	(377,007)
Releases of contingency reserves	91,570
Change in net unrealized capital gains/(losses)	51,458
Prior period surplus adjustments	23,241
Policyholders' Surplus, December 31, 2015	$49,577,055

By the third quarter of 2011, AMG had no remaining legacy business and began writing new business, particularly in those states and U.S. territories in which PMI Mortgage Insurance Co. was unable to write due to its legal inability or the unwillingness of those governmental units to grant a waiver of relevant capital and surplus requirements. In August 2011, the writing of new business ceased due to the company being suspended by Fannie Mae and Freddie Mac as an eligible mortgage insurer for loans to be acquired by these government-sponsored enterprises. The company continued to service the existing policies, thereafter, resulting in a gradual decrease in premium written during the past five years.

In 2013 and 2014, the company reported unusually high expense ratios due to the decrease in premium written as compared to ongoing operating expenses.

As previously noted, on January 30, 2014, Arch U.S. MI Holdings Inc., an indirect subsidiary of Arch Capital Group Ltd., completed the acquisition of the company from its owner, PMI, and acquired PMI's mortgage insurance platform and related assets. Upon the acquisition, the company's name was changed to Arch Mortgage Guaranty Company and the company was redomiciled to Wisconsin. The company was repurposed by its new ownership to serve the non-GSE market for mortgage insurance. In 2015, the expense ratio decreased noticeably due to lower net premiums written due to the increased ceded premiums under the reinsurance contracts with ARC and ARL, partially offset by lower underwriting expenses related to operating fees and ceding commissions received.

During the period under examination, the company's surplus increased by 65.3%, primarily due to the capital contribution made by the parent company during the acquisition of the company in 2014. The company reported favorable results from operations in three out of five years during the 2011 to 2015 period.

The previous examination of the company was conducted by the Arizona Department of Insurance as of December 31, 2010. There were no recommendations in that examination. The current examination made three recommendations. Areas of improvement recommended by this examination included actuarial documentation and proper completion of the Wisconsin state-specific supplement to the annual statement entitled "Report of Executive Compensation." The examination determined that there were no material misstatements of account balances as reported by the company in its 2015 statutory financial statements and did not make any adjustments or reclassifications to reported account balances. The examination determined that as of December 31, 2015, the company had admitted assets of $50,918,255, liabilities of $1,341,200, and policyholders' surplus of $49,577,055.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s.611.63 (4), Wis. Stat.

2. Page 30 - Actuarial Report—It is recommended that future actuarial reports contain sufficient documentation for another actuary practicing in the same field to evaluate the entirety of the work by providing a thorough description of the methodology used including how it works and why it is appropriate for the dataset.

3. Page 31 - Actuarial Opinion Summary—It is recommended that future Actuarial Opinion Summaries include all elements for which the appointed actuary provides an estimate, including both a range and point estimate if both are calculated in the appointed actuary's analysis.

X. SUBSEQUENT EVENTS

On December 31, 2016, AMG's parent company, Arch MI Holdings, completed the acquisition of United Guaranty Corporation (UGC, which includes ten insurance companies, including eight U.S. mortgage insurers and two U.S. credit insurers) (the UGC Acquisition) from American International Group, Inc. (AIG). The UGC Acquisition closed following the satisfaction of closing conditions as stipulated in the Stock Purchase Agreement, the receipt of regulatory approval from the North Carolina Department of Insurance, non-objection by this office, and federal approvals from the Government-Sponsored Enterprises, including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. The UGC Acquisition expanded the scale of ACGL's mortgage insurance business by combining UGC's position as market leader in the U.S. private mortgage insurance industry with ACGL's financial strength, technology platform, and market position. While the UGC Acquisition further diversified ACGL's business profile and customer base, it did not include any current plan to change the company's name, state of domicile, or basic insurance operations. The company will be headquartered in Greensboro, North Carolina, but will retain significant operations in California.

On March 15, 2017, this office approved AMG's plan to repay in full the principal and final accrued interest due on the surplus note issued on December 19, 2014, in the amount of $7,500,000 to Arch Capital Group (U.S.) Inc. At the time of this repayment, AMG issued another surplus note in the principal amount of $7,500,000 to affiliate Arch Capital Finance (Ireland) Limited. The term of the surplus note is 30 years with an annual interest rate of 6.35%, with payments subject to this office's prior approval. AMG has the right to redeem the surplus note early on the fifth anniversary of its issuance.

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Yi Xu	Insurance Financial Examiner
John Pollock	Insurance Financial Examiner-Journey
Junji Nartatez	Insurance Financial Examiner
John Litweiler	Insurance Financial Examiner-Advanced, Exam Planning & Quality Control Specialist
David Jensen	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Jerry DeArmond	Insurance Financial Examiner-Advanced, Loss Reserve Specialist

Respectfully submitted,

Ana Careaga
Examiner-in-Charge