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Financial Supplement

Financial Information as of September 30, 2015

The following financial supplement is provided to assist in your understanding of Arch Capital Group Ltd.

This report is for informational purposes only. It should be read in conjunction with documents filed by Arch Capital Group Ltd. with the U.S. Securities and Exchange Commission, including the most recent Annual Report on Form 10-K and the Quarterly Reports on Form 10-Q. Please refer to the Company's website at www.archcapgroup.com for further information describing Arch Capital Group Ltd.

Arch Capital Group Ltd. and Subsidiaries
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Arch Capital Group Ltd. and Subsidiaries
Basis of Presentation

Basis of Presentation

All financial information contained herein is unaudited, however, certain information relating to the consolidated balance sheet at December 31, 2014 is derived from or agrees to audited financial information. The Company has reclassified the presentation of certain prior year information to conform to the current presentation. Such reclassifications had no effect on the Company's net income, shareholders' equity or cash flows. Unless otherwise noted, all data is in thousands, except for share and per share amounts and ratio information.

In March 2014, the Company invested \$100.0 million to acquire approximately 11% of Watford Holdings Ltd.'s common equity and a warrant to purchase additional common equity. Watford Holdings Ltd. is the parent of Watford Re Ltd., a multi-line Bermuda reinsurance company (together with Watford Holdings Ltd., "Watford Re"). In accordance with GAAP, Watford is considered a variable interest entity and the Company concluded that it is the primary beneficiary of Watford Re. **As such, 100% of the results of Watford Re are included in the Company's consolidated financial statements.** The portion of Watford Re's earnings owned by third parties is recorded in the consolidated statements of income as 'amounts attributable to noncontrolling interests.' In addition, the Company reflects Watford Re's redeemable preference shares in the mezzanine section of the Company's consolidated balance sheets as 'redeemable noncontrolling interests' because they have redemption features that are not solely within the control of Watford Re.

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This release or any other written or oral statements made by or on behalf of Arch Capital Group Ltd. and its subsidiaries may include forward-looking statements, which reflect the Company's current views with respect to future events and financial performance. All statements other than statements of historical fact included in or incorporated by reference in this release are forward-looking statements.

Forward-looking statements can generally be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or their negative or variations or similar terminology. Forward-looking statements involve the Company's current assessment of risks and uncertainties. Actual events and results may differ materially from those expressed or implied in these statements. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such forward-looking statements includes the following: adverse general economic and market conditions; increased competition; pricing and policy term trends; fluctuations in the actions of rating agencies and the Company's ability to maintain and improve the Company's ratings; investment performance; the loss of key personnel; the adequacy of the Company's loss reserves, severity and/or frequency of losses, greater than expected loss ratios and adverse development on claim and/or claim expense liabilities; greater frequency or severity of unpredictable natural and man-made catastrophic events; the impact of acts of terrorism and acts of war; changes in regulations and/or tax laws in the United States or elsewhere; the Company's ability to successfully integrate, establish and maintain operating procedures as well as integrate the businesses we have acquired or may acquire into the existing operations; changes in accounting principles or policies; material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements; availability and cost to the Company of reinsurance to manage gross and net exposures; the failure of others to meet their obligations to the Company; and other factors identified in the Company's filings with the U.S. Securities and Exchange Commission.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Arch Capital Group Ltd. and Subsidiaries
Financial Highlights

The financial highlights below exclude amounts reflected in the 'other' segment (Watford Re):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|--------------|---------|------------------------------------|--------------|----------|
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| (U.S. Dollars in thousands, except share data) | | | | | | |
| Underwriting results: | | | | | | |
| Gross premiums written | \$ 1,158,451 | \$ 1,138,392 | 1.8 % | \$ 3,625,382 | \$ 3,690,462 | (1.8)% |
| Net premiums written | 846,965 | 859,724 | (1.5)% | 2,612,774 | 2,812,646 | (7.1)% |
| Net premiums earned | 837,523 | 868,881 | (3.6)% | 2,511,770 | 2,620,667 | (4.2)% |
| Underwriting income | 93,470 | 101,167 | (7.6)% | 316,516 | 359,878 | (12.0)% |
| Loss ratio | 55.5 % | 55.0 % | 0.5 | 53.8% | 53.1% | 0.7 |
| Acquisition expense ratio | 17.1 % | 17.7 % | (0.6) | 17.1% | 17.8% | (0.7) |
| Other operating expense ratio | 17.1 % | 15.8 % | 1.3 | 17.4% | 15.6% | 1.8 |
| Combined ratio | 89.7 % | 88.5 % | 1.2 | 88.3% | 86.5% | 1.8 |
| Net investment income | \$ 67,251 | \$ 72,239 | (6.9)% | \$ 204,710 | \$ 211,690 | (3.3)% |
| <i>Per diluted share</i> | \$ 0.54 | \$ 0.53 | 1.9 % | \$ 1.62 | \$ 1.55 | 4.5 % |
| Net income available to Arch common shareholders | \$ 74,549 | \$ 223,191 | (66.6)% | \$ 462,706 | \$ 602,738 | (23.2)% |
| <i>Per diluted share</i> | \$ 0.60 | \$ 1.64 | (63.4)% | \$ 3.66 | \$ 4.42 | (17.2)% |
| After-tax operating income available to Arch common shareholders (1) | \$ 125,798 | \$ 142,055 | (11.4)% | \$ 421,600 | \$ 467,128 | (9.7)% |
| <i>Per diluted share</i> | \$ 1.01 | \$ 1.05 | (3.8)% | \$ 3.34 | \$ 3.43 | (2.6)% |
| Comprehensive income available to Arch | \$ 23,401 | \$ 96,978 | (75.9)% | \$ 360,112 | \$ 646,413 | (44.3)% |
| Cash flow from operations | \$ 359,246 | \$ 319,304 | 12.5 % | \$ 606,607 | \$ 770,867 | (21.3)% |
| Diluted weighted average common shares and common share equivalents outstanding | 125,011,773 | 135,876,605 | (8.0)% | 126,354,759 | 136,354,172 | (7.3)% |
| Financial measures: | | | | | | |
| Change in book value per common share during period | 0.4 % | 0.7 % | (0.3) | 4.6% | 10.6% | (6.0) |
| Annualized operating return on average common equity | 8.6 % | 9.7 % | (1.1) | 9.7% | 11.2% | (1.5) |
| Total return on investments (2) | | | | | | |
| Including effects of foreign exchange | (0.31)% | (0.51)% | 20 bps | 0.76% | 2.32% | -156 bps |
| Excluding effects of foreign exchange | 0.04 % | 0.21 % | -17 bps | 1.73% | 2.89% | -116 bps |

(1) See Comments on Regulation G.

(2) Total return on investments includes net investment income, equity in net income (loss) of investment funds accounted for using the equity method, net realized gains and losses and the change in unrealized gains and losses generated by the Company's investment portfolio. Total return is calculated on a pre-tax basis and before investment expenses.

Arch Capital Group Ltd. and Subsidiaries
Consolidated Statements of Income

(U.S. Dollars in thousands, except share data)

| | Three Months Ended | | | | Nine Months Ended | | |
|--|-----------------------|-------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Revenues | | | | | | | |
| Net premiums written | \$ 971,972 | \$ 943,580 | \$ 1,066,995 | \$ 895,481 | \$ 959,539 | \$ 2,982,547 | \$ 2,996,457 |
| Change in unearned premiums | (35,289) | (142) | (156,731) | 27,684 | (55,888) | (192,162) | (325,874) |
| Net premiums earned | 936,683 | 943,438 | 910,264 | 923,165 | 903,651 | 2,790,385 | 2,670,583 |
| Net investment income | 86,233 | 86,963 | 78,994 | 82,496 | 80,105 | 252,190 | 220,089 |
| Net realized gains (losses) | (89,698) | (35,725) | 83,348 | 10,561 | 18,515 | (42,075) | 92,356 |
| Net impairment losses recognized in earnings | (5,868) | (1,113) | (5,799) | (3,837) | (8,593) | (12,780) | (26,313) |
| Other underwriting income | 7,623 | 7,717 | 11,536 | 4,825 | 1,702 | 26,876 | 5,317 |
| Equity in net income of investment funds accounted for using the equity method | (2,118) | 16,167 | 5,889 | 2,424 | 4,966 | 19,938 | 17,459 |
| Other income (loss) | (265) | 2,205 | (1,888) | (5,183) | (7,815) | 52 | (5,069) |
| Total revenues | 932,590 | 1,019,652 | 1,082,344 | 1,014,451 | 992,531 | 3,034,586 | 2,974,422 |
| Expenses | | | | | | | |
| Losses and loss adjustment expenses | (531,741) | (519,426) | (493,716) | (495,819) | (501,673) | (1,544,883) | (1,423,431) |
| Acquisition expenses | (171,566) | (175,425) | (163,076) | (175,215) | (163,547) | (510,067) | (482,047) |
| Other operating expenses | (156,959) | (168,608) | (157,882) | (154,595) | (149,480) | (483,449) | (451,629) |
| Interest expense | (13,300) | (4,011) | (12,736) | (12,744) | (4,152) | (30,047) | (32,890) |
| Net foreign exchange gains (losses) | 14,680 | (19,583) | 66,501 | 36,570 | 56,031 | 61,598 | 47,174 |
| Total expenses | (858,886) | (887,053) | (760,909) | (801,803) | (762,821) | (2,506,848) | (2,342,823) |
| Income before income taxes | 73,704 | 132,599 | 321,435 | 212,648 | 229,710 | 527,738 | 631,599 |
| Income tax expense | (9,704) | (6,780) | (12,678) | (5,514) | (6,446) | (29,162) | (17,473) |
| Net income | 64,000 | 125,819 | 308,757 | 207,134 | 223,264 | 498,576 | 614,126 |
| Amounts attributable to noncontrolling interests | 16,033 | (10,029) | (25,421) | 8,030 | 5,411 | (19,417) | 5,065 |
| Net income attributable to Arch | 80,033 | 115,790 | 283,336 | 215,164 | 228,675 | 479,159 | 619,191 |
| Preferred dividends | (5,484) | (5,485) | (5,484) | (5,485) | (5,484) | (16,453) | (16,453) |
| Net income available to Arch common shareholders | \$ 74,549 | \$ 110,305 | \$ 277,852 | \$ 209,679 | \$ 223,191 | \$ 462,706 | \$ 602,738 |
| Comprehensive income available to Arch | \$ 23,401 | \$ 24,208 | \$ 312,503 | \$ 241,834 | \$ 96,978 | \$ 360,112 | \$ 646,413 |
| Net income per common share | | | | | | | |
| Basic | \$ 0.62 | \$ 0.91 | \$ 2.24 | \$ 1.65 | \$ 1.69 | \$ 3.79 | \$ 4.56 |
| Diluted | \$ 0.60 | \$ 0.88 | \$ 2.16 | \$ 1.60 | \$ 1.64 | \$ 3.66 | \$ 4.42 |
| Weighted average common shares and common share equivalents outstanding | | | | | | | |
| Basic | 120,567,410 | 121,719,214 | 124,209,276 | 126,857,041 | 131,945,962 | 122,151,971 | 132,151,824 |
| Diluted | 125,011,773 | 125,885,420 | 128,451,054 | 130,855,218 | 135,876,605 | 126,354,759 | 136,354,172 |

Arch Capital Group Ltd. and Subsidiaries
Consolidated Balance Sheets

(U.S. Dollars in thousands, except share data)

| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|---|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| Assets | | | | | |
| Investments: | | | | | |
| Fixed maturities available for sale, at fair value | \$ 10,560,635 | \$ 9,927,603 | \$ 10,427,810 | \$ 10,750,770 | \$ 10,733,382 |
| Short-term investments available for sale, at fair value | 708,428 | 875,727 | 855,032 | 797,226 | 748,659 |
| Investment of funds received under securities lending, at fair value | 286,659 | 377,897 | 257,059 | 44,301 | 104,252 |
| Equity securities available for sale, at fair value | 606,259 | 701,623 | 687,713 | 658,182 | 582,075 |
| Other investments available for sale, at fair value | 281,014 | 377,677 | 329,677 | 296,224 | 431,833 |
| Investments accounted for using the fair value option | 2,783,165 | 2,613,487 | 2,421,522 | 2,425,053 | 2,198,693 |
| Investments accounted for using the equity method | 589,277 | 472,926 | 412,367 | 349,014 | 307,252 |
| Total investments | 15,815,437 | 15,346,940 | 15,391,180 | 15,320,770 | 15,106,146 |
| Cash | 649,779 | 525,074 | 471,012 | 485,702 | 663,726 |
| Accrued investment income | 76,142 | 80,129 | 73,282 | 74,316 | 65,042 |
| Fixed maturities and short-term investments pledged under securities lending, at fair value | 285,632 | 373,969 | 253,115 | 50,802 | 107,547 |
| Premiums receivable | 1,074,884 | 1,181,636 | 1,116,389 | 948,695 | 1,027,204 |
| Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses | 1,832,386 | 1,831,227 | 1,788,619 | 1,812,845 | 1,814,190 |
| Contractholder receivables | 1,436,154 | 1,393,138 | 1,339,433 | 1,309,192 | 1,286,799 |
| Prepaid reinsurance premiums | 442,346 | 442,141 | 421,908 | 377,078 | 404,661 |
| Deferred acquisition costs, net | 448,893 | 448,647 | 442,775 | 414,525 | 409,174 |
| Receivable for securities sold | 705,821 | 454,057 | 400,113 | 78,170 | 672,259 |
| Goodwill and intangible assets | 103,620 | 102,518 | 106,745 | 109,539 | 111,528 |
| Other assets | 899,498 | 905,449 | 1,050,520 | 1,024,447 | 939,951 |
| Total assets | \$ 23,770,592 | \$ 23,084,925 | \$ 22,855,091 | \$ 22,006,081 | \$ 22,608,227 |
| Liabilities | | | | | |
| Reserve for losses and loss adjustment expenses | \$ 9,084,855 | \$ 9,082,281 | \$ 8,928,950 | \$ 9,036,448 | \$ 8,958,734 |
| Unearned premiums | 2,467,691 | 2,442,923 | 2,400,834 | 2,231,578 | 2,303,247 |
| Reinsurance balances payable | 235,562 | 252,462 | 200,444 | 219,312 | 244,379 |
| Contractholder payables | 1,436,154 | 1,393,138 | 1,339,433 | 1,309,192 | 1,286,799 |
| Collateral held for insured obligations | 242,928 | 219,798 | 197,965 | 184,219 | 183,830 |
| Deposit accounting liabilities | 270,876 | 277,523 | 284,828 | 327,384 | 349,850 |
| Senior notes | 791,264 | 791,222 | 791,181 | 791,141 | 791,101 |
| Revolving credit agreement borrowings | 339,077 | 100,000 | 100,000 | 100,000 | 100,000 |
| Securities lending payable | 292,838 | 383,965 | 263,216 | 50,529 | 110,736 |
| Payable for securities purchased | 817,371 | 468,015 | 554,625 | 128,413 | 740,953 |
| Other liabilities | 649,910 | 536,207 | 495,715 | 509,219 | 456,113 |
| Total liabilities | 16,628,526 | 15,947,534 | 15,557,191 | 14,887,435 | 15,525,742 |
| Redeemable noncontrolling interests | 205,089 | 204,996 | 219,604 | 219,512 | 219,419 |
| Shareholders' equity | | | | | |
| Non-cumulative preferred shares | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Common shares | 576 | 576 | 573 | 572 | 571 |
| Additional paid-in capital | 450,948 | 437,533 | 399,757 | 383,073 | 366,408 |
| Retained earnings | 7,317,277 | 7,242,728 | 7,132,423 | 6,854,571 | 6,644,892 |
| Accumulated other comprehensive income, net of deferred income tax | 9,809 | 66,441 | 158,023 | 128,856 | 102,186 |
| Common shares held in treasury, at cost | (1,940,795) | (1,934,763) | (1,727,074) | (1,562,019) | (1,358,011) |
| Total shareholders' equity available to Arch | 6,162,815 | 6,137,515 | 6,288,702 | 6,130,053 | 6,081,046 |
| Non-redeemable noncontrolling interests | 774,162 | 794,880 | 789,594 | 769,081 | 782,020 |
| Total shareholders' equity | 6,936,977 | 6,932,395 | 7,078,296 | 6,899,134 | 6,863,066 |
| Total liabilities, noncontrolling interests and shareholders' equity | \$ 23,770,592 | \$ 23,084,925 | \$ 22,855,091 | \$ 22,006,081 | \$ 22,608,227 |
| Common shares outstanding, net of treasury shares | 122,438,554 | 122,403,909 | 124,760,841 | 127,367,934 | 130,700,619 |
| Book value per common share (1) | \$ 47.68 | \$ 47.49 | \$ 47.80 | \$ 45.58 | \$ 44.04 |

(1) Excludes the effects of stock options and restricted stock units outstanding.

Arch Capital Group Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

(U.S. Dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2014 |
| Non-Cumulative Preferred Shares | | | | | | |
| Balance at beginning and end of period | \$ 325,000 | \$ 325,000 | \$ 325,000 | \$ 325,000 | \$ 325,000 | \$ 325,000 |
| Common Shares | | | | | | |
| Balance at beginning of period | 576 | 573 | 572 | 571 | 570 | 572 |
| Common shares issued, net | — | 3 | 1 | 1 | 1 | 4 |
| Balance at end of period | 576 | 576 | 573 | 572 | 571 | 571 |
| Additional Paid-in Capital | | | | | | |
| Balance at beginning of period | 437,533 | 399,757 | 383,073 | 366,408 | 353,208 | 383,073 |
| Common shares issued, net | 62 | 7,378 | — | 3,189 | 41 | 7,440 |
| Exercise of stock options | 2,739 | 6,256 | 3,368 | 3,771 | 3,658 | 12,363 |
| Amortization of share-based compensation | 10,531 | 22,806 | 13,238 | 9,671 | 9,491 | 46,575 |
| Other | 83 | 1,336 | 78 | 34 | 10 | 1,497 |
| Balance at end of period | 450,948 | 437,533 | 399,757 | 383,073 | 366,408 | 450,948 |
| Retained Earnings | | | | | | |
| Balance at beginning of period | 7,242,728 | 7,132,423 | 6,854,571 | 6,644,892 | 6,421,701 | 6,854,571 |
| Net income | 64,000 | 125,819 | 308,757 | 207,134 | 223,264 | 498,576 |
| Amounts attributable to noncontrolling interests | 16,033 | (10,029) | (25,421) | 8,030 | 5,411 | (19,417) |
| Preferred share dividends | (5,484) | (5,485) | (5,484) | (5,485) | (5,484) | (16,453) |
| Balance at end of period | 7,317,277 | 7,242,728 | 7,132,423 | 6,854,571 | 6,644,892 | 7,317,277 |
| Accumulated Other Comprehensive Income | | | | | | |
| Balance at beginning of period | 66,441 | 158,023 | 128,856 | 102,186 | 233,883 | 128,856 |
| Unrealized appreciation in value of available-for-sale investments, net of deferred income tax: | | | | | | |
| Balance at beginning of period | 110,360 | 213,522 | 161,598 | 122,837 | 230,939 | 161,598 |
| Unrealized holding gains (losses) arising during period, net of reclassification adjustment | (41,613) | (103,149) | 53,372 | 39,081 | (108,102) | (91,390) |
| Portion of other-than-temporary impairment losses recognized in other comprehensive income, net of deferred income tax | (3,033) | (13) | (1,448) | (320) | — | (4,494) |
| Balance at end of period | 65,714 | 110,360 | 213,522 | 161,598 | 122,837 | 65,714 |
| Foreign currency translation adjustments: | | | | | | |
| Balance at beginning of period | (43,919) | (55,499) | (32,742) | (20,651) | 2,944 | (32,742) |
| Foreign currency translation adjustments | (11,986) | 11,580 | (22,757) | (12,091) | (23,595) | (23,163) |
| Balance at end of period | (55,905) | (43,919) | (55,499) | (32,742) | (20,651) | (55,905) |
| Balance at end of period | 9,809 | 66,441 | 158,023 | 128,856 | 102,186 | 9,809 |
| Common Shares Held in Treasury, at Cost | | | | | | |
| Balance at beginning of period | (1,934,763) | (1,727,074) | (1,562,019) | (1,358,011) | (1,104,963) | (1,562,019) |
| Shares repurchased for treasury | (6,032) | (207,689) | (165,055) | (204,008) | (253,048) | (378,776) |
| Balance at end of period | (1,940,795) | (1,934,763) | (1,727,074) | (1,562,019) | (1,358,011) | (1,940,795) |
| Total shareholders' equity available to Arch | 6,162,815 | 6,137,515 | 6,288,702 | 6,130,053 | 6,081,046 | 6,162,815 |
| Non-redeemable noncontrolling interests | 774,162 | 794,880 | 789,594 | 769,081 | 782,020 | 774,162 |
| Total shareholders' equity | \$ 6,936,977 | \$ 6,932,395 | \$ 7,078,296 | \$ 6,899,134 | \$ 6,863,066 | \$ 6,936,977 |

Arch Capital Group Ltd. and Subsidiaries
Consolidated Statements of Cash Flows

(U.S. Dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | | |
|---|-----------------------|-------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Operating Activities | | | | | | | |
| Net income | \$ 64,000 | \$ 125,819 | \$ 308,757 | \$ 207,134 | \$ 223,264 | \$ 498,576 | \$ 614,126 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | |
| Net realized (gains) losses | 82,798 | 27,089 | (87,907) | (14,478) | (25,513) | 21,980 | (113,033) |
| Net impairment losses included in earnings | 5,868 | 1,113 | 5,799 | 3,837 | 8,593 | 12,780 | 26,313 |
| Equity in net income or loss of investment funds accounted for using the equity method and other income or loss | 14,332 | (8,379) | (1,970) | 9,556 | 3,919 | 3,983 | 3,784 |
| Share-based compensation | 10,531 | 22,806 | 13,238 | 9,671 | 9,491 | 46,575 | 45,118 |
| Changes in: | | | | | | | |
| Reserve for losses and loss adjustment expenses, net of unpaid losses and loss adjustment expenses recoverable | 47,961 | 37,289 | 54,327 | 61,956 | 33,781 | 139,577 | 94,255 |
| Unearned premiums, net of prepaid reinsurance premiums | 35,289 | 142 | 156,731 | (27,684) | 55,888 | 192,162 | 325,874 |
| Premiums receivable | 97,901 | (14,395) | (192,247) | 62,731 | 46,187 | (108,741) | (279,766) |
| Deferred acquisition costs, net | (2,713) | (2,705) | (36,304) | (9,464) | (16,298) | (41,722) | (72,120) |
| Reinsurance balances payable | (15,415) | 35,679 | (16,022) | (22,922) | (16,182) | 4,242 | 49,621 |
| Other liabilities | 101,479 | (45,985) | (48,856) | (16,132) | 74,756 | 6,638 | 117,889 |
| Other items, net | (19,651) | 121,265 | (70,085) | (26,734) | (51,290) | 31,529 | (12,402) |
| Net Cash Provided By Operating Activities | <u>422,380</u> | <u>299,738</u> | <u>85,461</u> | <u>237,471</u> | <u>346,596</u> | <u>807,579</u> | <u>799,659</u> |
| Investing Activities | | | | | | | |
| Purchases of fixed maturity investments | (7,740,713) | (7,610,660) | (7,030,731) | (6,714,417) | (7,719,114) | (22,382,104) | (22,030,862) |
| Purchases of equity securities | (196,991) | (162,672) | (125,863) | (154,239) | (191,891) | (485,526) | (366,578) |
| Purchases of other investments | (540,572) | (404,276) | (375,402) | (454,363) | (411,245) | (1,320,250) | (1,136,285) |
| Proceeds from sales of fixed maturity investments | 7,078,118 | 7,476,321 | 6,857,115 | 6,549,838 | 7,077,288 | 21,411,554 | 20,273,351 |
| Proceeds from sales of equity securities | 236,665 | 146,437 | 125,906 | 106,328 | 206,347 | 509,008 | 305,034 |
| Proceeds from sales, redemptions and maturities of other investments | 270,718 | 318,201 | 269,449 | 375,280 | 247,369 | 858,368 | 566,518 |
| Proceeds from redemptions and maturities of fixed maturities | 155,413 | 202,327 | 272,657 | 126,266 | 204,689 | 630,397 | 636,729 |
| Net settlements of derivative instruments | 62,108 | (7,057) | 26,063 | 18,877 | 5,093 | 81,114 | 15,495 |
| Proceeds from investment in joint venture | — | 40,000 | — | — | — | 40,000 | — |
| Net sales (purchases) of short-term investments | 178,034 | (62,576) | 66,283 | (101,262) | 248,084 | 181,741 | 678,388 |
| Change in cash collateral related to securities lending | 47,014 | (12,800) | (5,529) | 60,207 | (21,438) | 28,685 | (2,737) |
| Purchase of business, net of cash acquired | — | 3,250 | (2,432) | (1,528) | — | 818 | (235,578) |
| Purchases of fixed assets | (4,505) | (3,124) | (3,272) | (5,308) | (4,215) | (10,901) | (14,575) |
| Change in other assets | (6,885) | (7,144) | (29,625) | — | — | (43,654) | — |
| Net Cash Provided By (Used For) Investing Activities | <u>(461,596)</u> | <u>(83,773)</u> | <u>44,619</u> | <u>(194,321)</u> | <u>(359,033)</u> | <u>(500,750)</u> | <u>(1,311,100)</u> |
| Financing Activities | | | | | | | |
| Purchases of common shares under share repurchase program | (3,506) | (198,979) | (162,898) | (202,218) | (251,919) | (365,383) | (251,919) |
| Proceeds from common shares issued, net | (1,481) | 2,590 | (412) | 3,579 | 727 | 697 | 3,248 |
| Proceeds from borrowings | 239,077 | — | — | — | — | 239,077 | — |
| Repayments of borrowings | — | — | — | — | — | — | — |
| Change in cash collateral related to securities lending | (47,014) | 12,800 | 5,529 | (60,207) | 21,438 | (28,685) | 2,737 |
| Third party investment in non-redeemable noncontrolling interests | — | — | — | — | — | — | 796,903 |
| Third party investment in redeemable noncontrolling interests | — | — | — | — | — | — | 219,233 |
| Dividends paid to redeemable noncontrolling interests | (4,497) | (4,497) | (4,816) | (4,816) | (4,816) | (13,810) | (9,632) |
| Other | (4,555) | 25,239 | 29,779 | 58,414 | 1,853 | 50,463 | 6,559 |
| Preferred dividends paid | (5,484) | (5,485) | (5,484) | (5,485) | (5,484) | (16,453) | (16,453) |
| Net Cash Provided By (Used For) Financing Activities | <u>172,540</u> | <u>(168,332)</u> | <u>(138,302)</u> | <u>(210,733)</u> | <u>(238,201)</u> | <u>(134,094)</u> | <u>750,676</u> |
| Effects of exchange rate changes on foreign currency cash | (8,619) | 6,429 | (6,468) | (10,441) | (12,079) | (8,658) | (9,566) |
| Increase (decrease) in cash | 124,705 | 54,062 | (14,690) | (178,024) | (262,717) | 164,077 | 229,669 |
| Cash beginning of period | 525,074 | 471,012 | 485,702 | 663,726 | 926,443 | 485,702 | 434,057 |
| Cash end of period | <u>\$ 649,779</u> | <u>\$ 525,074</u> | <u>\$ 471,012</u> | <u>\$ 485,702</u> | <u>\$ 663,726</u> | <u>\$ 649,779</u> | <u>\$ 663,726</u> |
| Income taxes paid, net | \$ 9,468 | \$ 22,423 | \$ 3,569 | \$ 7,588 | \$ 5,056 | \$ 35,460 | \$ 13,335 |
| Interest paid | \$ 119 | \$ 24,565 | \$ 511 | \$ 24,318 | \$ 415 | \$ 25,195 | \$ 22,111 |

Arch Capital Group Ltd. and Subsidiaries Segment Information — Overview

The Company classifies its businesses into three underwriting segments — insurance, reinsurance and mortgage — and two other operating segments — ‘other’ and corporate (non-underwriting). The Company’s Insurance, Reinsurance and Mortgage segments each have managers who are responsible for the overall profitability of their respective segments and who are directly accountable to the Company’s chief operating decision makers, the Chairman, President and Chief Executive Officer of ACGL and the Chief Financial Officer of ACGL. The chief operating decision makers do not assess performance, measure return on equity or make resource allocation decisions on a line of business basis. Management measures segment performance for its three underwriting segments based on underwriting income or loss. The Company does not manage its assets by underwriting segment and, accordingly, investment income is not allocated to each underwriting segment.

The Company determined its reportable operating segments using the management approach described in accounting guidance regarding disclosures about segments of an enterprise and related information. The accounting policies of the segments are the same as those used for the preparation of the Company’s consolidated financial statements. Intersegment business is allocated to the segment accountable for the underwriting results. The Corporate (non-underwriting) segment results include net investment income, other income (loss), other expenses incurred by the Company, interest expense, net realized gains or losses, net impairment losses included in earnings, equity in net income (loss) of investment funds accounted for using the equity method, net foreign exchange gains or losses, income taxes and items related to the Company’s non-cumulative preferred shares. Such amounts exclude the results of the ‘other’ segment.

Insurance Segment

The insurance segment consists of the Company’s insurance underwriting units which offer specialty product lines on a worldwide basis. Product lines include:

- *Construction and national accounts*: primary and excess casualty coverages to middle and large accounts in the construction industry and a wide range of products for middle and large national accounts, specializing in loss sensitive primary casualty insurance programs (including large deductible, self-insured retention and retrospectively rated programs).
- *Excess and surplus casualty*: primary and excess casualty insurance coverages, including middle market energy business, and contract binding, which primarily provides casualty coverage through a network of appointed agents to small and medium risks.
- *Lenders products*: collateral protection, debt cancellation and service contract reimbursement products to banks, credit unions, automotive dealerships and original equipment manufacturers and other specialty programs that pertain to automotive lending and leasing.
- *Professional lines*: directors’ and officers’ liability, errors and omissions liability, employment practices liability, fiduciary liability, crime, professional indemnity and other financial related coverages for corporate, private equity, venture capital, real estate investment trust, limited partnership, financial institution and not-for-profit clients of all sizes and medical professional and general liability insurance coverages for the healthcare industry. The business is predominately written on a claims-made basis.
- *Programs*: primarily package policies, underwriting workers’ compensation and umbrella liability business in support of desirable package programs, targeting program managers with unique expertise and niche products offering general liability, commercial automobile, inland marine and property business with minimal catastrophe exposure.
- *Property, energy, marine and aviation*: primary and excess general property insurance coverages, including catastrophe-exposed property coverage, for commercial clients. Coverages for marine include hull, war, specie and liability. Aviation and stand alone terrorism are also offered.
- *Travel, accident and health*: specialty travel and accident and related insurance products for individual, group travelers, travel agents and suppliers, as well as accident and health, which provides accident, disability and medical plan insurance coverages for employer groups, medical plan members, students and other participant groups.
- *Other*: includes alternative market risks (including captive insurance programs), excess workers’ compensation and employer’s liability insurance coverages for qualified self-insured groups, associations and trusts, and contract and commercial surety coverages, including contract bonds (payment and performance bonds) primarily for medium and large contractors and commercial surety bonds for Fortune 1,000 companies and smaller transaction business programs.

Arch Capital Group Ltd. and Subsidiaries Segment Information — Overview

Reinsurance Segment

The reinsurance segment consists of the Company's reinsurance underwriting units which offer specialty product lines on a worldwide basis. Product lines include:

- *Casualty*: provides coverage to ceding company clients on third party liability and workers' compensation exposures from ceding company clients, primarily on a treaty basis. Exposures include, among others, executive assurance, professional liability, workers' compensation, excess and umbrella liability, excess motor and healthcare business.
- *Marine and aviation*: provides coverage for energy, hull, cargo, specie, liability and transit, and aviation business, including airline and general aviation risks. Business written may also include space business, which includes coverages for satellite assembly, launch and operation for commercial space programs.
- *Other specialty*: provides coverage to ceding company clients for proportional motor and other lines including surety, accident and health, workers' compensation catastrophe, agriculture, trade credit and political risk.
- *Property catastrophe*: provides protection for most catastrophic losses that are covered in the underlying policies written by reinsureds, including hurricane, earthquake, flood, tornado, hail and fire, and coverage for other perils on a case-by-case basis. Property catastrophe reinsurance provides coverage on an excess of loss basis when aggregate losses and loss adjustment expense from a single occurrence of a covered peril exceed the retention specified in the contract.
- *Property excluding property catastrophe*: provides coverage for both personal lines and commercial property exposures and principally covers buildings, structures, equipment and contents. The primary perils in this business include fire, explosion, collapse, riot, vandalism, wind, tornado, flood and earthquake. Business is assumed on both a proportional and excess of loss basis. In addition, facultative business is written which focuses on commercial property risks on an excess of loss basis.
- *Other*: includes life reinsurance business on both a proportional and non-proportional basis, casualty clash business and, in limited instances, non-traditional business which is intended to provide insurers with risk management solutions that complement traditional reinsurance.

Mortgage Segment

The mortgage segment includes the results of Arch Mortgage Insurance Company ("Arch MI U.S.") and Arch Mortgage Insurance Limited, leading providers of mortgage insurance products and services to the U.S. and European markets, respectively. Arch MI U.S. is approved as an eligible mortgage insurer by Fannie Mae and Freddie Mac (each a government sponsored enterprise, or "GSE"). The mortgage segment also includes GSE credit risk-sharing transactions and mortgage reinsurance for the U.S. and Australian markets.

Other Segment

The 'other' segment includes the results of Watford Holdings Ltd. and its subsidiary Watford Re Ltd., a multi-line Bermuda reinsurance company, which was launched in March 2014. The Company acts as Watford's reinsurance manager, and Highbridge Principal Strategies, LLC, a subsidiary of JPMorgan Chase & Co., manages Watford's investment assets, each under a long term services agreement. The Company invested \$100 million to acquire approximately 11% of Watford's common equity and a warrant to purchase additional common equity. Watford has its own management and board of directors and is responsible for the overall profitability of the 'other' segment. The Company is required to consolidate the results of Watford in its financial statements. The portion of Watford's earnings attributable to third party investors is recorded in the consolidated statements of income as 'amounts attributable to noncontrolling interests.' Management measures segment performance for the 'other' segment based on net income or loss.

Arch Capital Group Ltd. and Subsidiaries
Segment Information

(U.S. Dollars in thousands)

| | Three Months Ended September 30, 2015 | | | | | |
|---|--|------------------|------------------|------------------|-------------------|------------------|
| | Insurance | Reinsurance | Mortgage | Sub-total | Other | Total |
| Gross premiums written (1) | \$ 752,438 | \$ 329,327 | \$ 74,657 | \$ 1,158,451 | \$ 131,165 | \$ 1,189,192 |
| Premiums ceded | (209,443) | (92,182) | (7,832) | (311,486) | (6,158) | (217,220) |
| Net premiums written | 542,995 | 237,145 | 66,825 | 846,965 | 125,007 | 971,972 |
| Change in unearned premiums | (20,451) | 23,286 | (12,277) | (9,442) | (25,847) | (35,289) |
| Net premiums earned | 522,544 | 260,431 | 54,548 | 837,523 | 99,160 | 936,683 |
| Other underwriting income | 519 | 2,783 | 3,565 | 6,867 | 756 | 7,623 |
| Losses and loss adjustment expenses | (339,859) | (115,780) | (9,562) | (465,201) | (66,540) | (531,741) |
| Acquisition expenses, net | (77,076) | (55,416) | (10,428) | (142,920) | (28,646) | (171,566) |
| Other operating expenses | (84,620) | (37,131) | (21,048) | (142,799) | (3,421) | (146,220) |
| Underwriting income (loss) | \$ 21,508 | \$ 54,887 | \$ 17,075 | 93,470 | 1,309 | 94,779 |
| Net investment income | | | | 67,251 | 18,982 | 86,233 |
| Net realized gains (losses) | | | | (53,480) | (36,218) | (89,698) |
| Net impairment losses recognized in earnings | | | | (5,868) | — | (5,868) |
| Equity in net income (loss) of investment funds accounted for using the equity method | | | | (2,118) | — | (2,118) |
| Other income (loss) | | | | (265) | — | (265) |
| Other expenses | | | | (10,739) | — | (10,739) |
| Interest expense | | | | (12,014) | (1,286) | (13,300) |
| Net foreign exchange gains (losses) | | | | 16,056 | (1,376) | 14,680 |
| Income before income taxes | | | | 92,293 | (18,589) | 73,704 |
| Income tax expense | | | | (9,704) | — | (9,704) |
| Net income | | | | 82,589 | (18,589) | 64,000 |
| Dividends attributable to redeemable noncontrolling interests | | | | — | (4,588) | (4,588) |
| Amounts attributable to nonredeemable noncontrolling interests | | | | — | 20,621 | 20,621 |
| Net income available to Arch | | | | 82,589 | (2,556) | 80,033 |
| Preferred dividends | | | | (5,484) | — | (5,484) |
| Net income available to Arch common shareholders | | | | \$ 77,105 | \$ (2,556) | \$ 74,549 |
| Underwriting Ratios | | | | | | |
| Loss ratio | 65.0% | 44.5% | 17.5% | 55.5% | 67.1% | 56.8% |
| Acquisition expense ratio | 14.8% | 21.3% | 19.1% | 17.1% | 28.9% | 18.3% |
| Other operating expense ratio | 16.2% | 14.3% | 38.6% | 17.1% | 3.4% | 15.6% |
| Combined ratio | 96.0% | 80.1% | 75.2% | 89.7% | 99.4% | 90.7% |
| Net premiums written to gross premiums written | 72.2% | 72.0% | 89.5% | 73.1% | 95.3% | 81.7% |
| Total investable assets | | | | \$ 14,733,732 | \$ 1,593,523 | \$ 16,327,255 |
| Total assets | | | | 21,679,795 | 2,090,797 | 23,770,592 |
| Total liabilities | | | | 15,627,574 | 1,000,952 | 16,628,526 |

(1) Certain amounts included in the gross premiums written of each segment are related to intersegment transactions and are included in the gross premiums written of each segment. Accordingly, the sum of gross premiums written for each segment does not agree to the total gross premiums written as shown in the table above due to the elimination of intersegment transactions in the total.

Arch Capital Group Ltd. and Subsidiaries
Segment Information

(U.S. Dollars in thousands)

| | Three Months Ended September 30, 2014 | | | | | |
|---|--|------------------|-----------------|-------------------|-------------------|-------------------|
| | Insurance | Reinsurance | Mortgage | Sub-total | Other | Total |
| Gross premiums written (1) | \$ 726,683 | \$ 345,747 | \$ 66,389 | \$ 1,138,392 | \$ 103,483 | \$ 1,159,907 |
| Premiums ceded | (187,689) | (83,502) | (7,904) | (278,668) | (3,668) | (200,368) |
| Net premiums written | 538,994 | 262,245 | 58,485 | 859,724 | 99,815 | 959,539 |
| Change in unearned premiums | (19,607) | 34,303 | (5,539) | 9,157 | (65,045) | (55,888) |
| Net premiums earned | 519,387 | 296,548 | 52,946 | 868,881 | 34,770 | 903,651 |
| Other underwriting income | 499 | 215 | 988 | 1,702 | — | 1,702 |
| Losses and loss adjustment expenses | (338,319) | (123,784) | (15,987) | (478,090) | (23,583) | (501,673) |
| Acquisition expenses, net | (81,775) | (60,205) | (11,958) | (153,938) | (9,609) | (163,547) |
| Other operating expenses | (83,138) | (36,337) | (17,913) | (137,388) | (1,658) | (139,046) |
| Underwriting income (loss) | \$ 16,654 | \$ 76,437 | \$ 8,076 | 101,167 | (80) | 101,087 |
| Net investment income | | | | 72,239 | 7,866 | 80,105 |
| Net realized gains (losses) | | | | 31,411 | (12,896) | 18,515 |
| Net impairment losses recognized in earnings | | | | (8,593) | — | (8,593) |
| Equity in net income (loss) of investment funds accounted for using the equity method | | | | 4,966 | — | 4,966 |
| Other income (loss) | | | | (7,815) | — | (7,815) |
| Other expenses | | | | (10,434) | — | (10,434) |
| Interest expense | | | | (4,152) | — | (4,152) |
| Net foreign exchange gains (losses) | | | | 57,611 | (1,580) | 56,031 |
| Income before income taxes | | | | 236,400 | (6,690) | 229,710 |
| Income tax expense | | | | (6,446) | — | (6,446) |
| Net income | | | | 229,954 | (6,690) | 223,264 |
| Dividends attributable to redeemable noncontrolling interests | | | | — | (4,909) | (4,909) |
| Amounts attributable to nonredeemable noncontrolling interests | | | | — | 10,320 | 10,320 |
| Net income available to Arch | | | | 229,954 | (1,279) | 228,675 |
| Preferred dividends | | | | (5,484) | — | (5,484) |
| Net income available to Arch common shareholders | | | | \$ 224,470 | \$ (1,279) | \$ 223,191 |
| Underwriting Ratios | | | | | | |
| Loss ratio | 65.1% | 41.7% | 30.2% | 55.0% | 67.8% | 55.5% |
| Acquisition expense ratio | 15.7% | 20.3% | 22.6% | 17.7% | 27.6% | 18.1% |
| Other operating expense ratio | 16.0% | 12.3% | 33.8% | 15.8% | 4.8% | 15.4% |
| Combined ratio | 96.8% | 74.3% | 86.6% | 88.5% | 100.2% | 89.0% |
| Net premiums written to gross premiums written | 74.2% | 75.8% | 88.1% | 75.5% | 96.5% | 82.7% |
| Total investable assets | | | | \$ 14,580,425 | \$ 1,124,048 | \$ 15,704,473 |
| Total assets | | | | 21,205,209 | 1,403,018 | 22,608,227 |
| Total liabilities | | | | 15,221,030 | 304,712 | 15,525,742 |

(1) Certain amounts included in the gross premiums written of each segment are related to intersegment transactions and are included in the gross premiums written of each segment. Accordingly, the sum of gross premiums written for each segment does not agree to the total gross premiums written as shown in the table above due to the elimination of intersegment transactions in the total.

Arch Capital Group Ltd. and Subsidiaries
Segment Information

(U.S. Dollars in thousands)

| | Nine Months Ended September 30, 2015 | | | | | |
|---|---|-------------------|------------------|-------------------|---------------|-------------------|
| | Insurance | Reinsurance | Mortgage | Sub-total | Other | Total |
| Gross premiums written (1) | \$ 2,263,401 | \$ 1,156,540 | \$ 203,770 | \$ 3,625,382 | \$ 387,752 | \$ 3,730,423 |
| Premiums ceded | (669,336) | (318,197) | (23,404) | (1,012,608) | (17,979) | (747,876) |
| Net premiums written | 1,594,065 | 838,343 | 180,366 | 2,612,774 | 369,773 | 2,982,547 |
| Change in unearned premiums | (53,782) | (24,230) | (22,992) | (101,004) | (91,158) | (192,162) |
| Net premiums earned | 1,540,283 | 814,113 | 157,374 | 2,511,770 | 278,615 | 2,790,385 |
| Other underwriting income | 1,467 | 6,870 | 14,969 | 23,306 | 3,570 | 26,876 |
| Losses and loss adjustment expenses | (978,681) | (339,495) | (33,010) | (1,351,186) | (193,697) | (1,544,883) |
| Acquisition expenses, net | (228,877) | (170,380) | (31,046) | (430,303) | (79,764) | (510,067) |
| Other operating expenses | (261,793) | (114,182) | (61,096) | (437,071) | (8,876) | (445,947) |
| Underwriting income (loss) | \$ 72,399 | \$ 196,926 | \$ 47,191 | 316,516 | (152) | 316,364 |
| Net investment income | | | | 204,710 | 47,480 | 252,190 |
| Net realized gains (losses) | | | | (14,831) | (27,244) | (42,075) |
| Net impairment losses recognized in earnings | | | | (12,780) | — | (12,780) |
| Equity in net income (loss) of investment funds accounted for using the equity method | | | | 19,938 | — | 19,938 |
| Other income (loss) | | | | 52 | — | 52 |
| Other expenses | | | | (37,502) | — | (37,502) |
| Interest expense | | | | (28,761) | (1,286) | (30,047) |
| Net foreign exchange gains (losses) | | | | 60,338 | 1,260 | 61,598 |
| Income before income taxes | | | | 507,680 | 20,058 | 527,738 |
| Income tax expense | | | | (29,162) | — | (29,162) |
| Net income | | | | 478,518 | 20,058 | 498,576 |
| Dividends attributable to redeemable noncontrolling interests | | | | — | (14,239) | (14,239) |
| Amounts attributable to nonredeemable noncontrolling interests | | | | — | (5,178) | (5,178) |
| Net income available to Arch | | | | 478,518 | 641 | 479,159 |
| Preferred dividends | | | | (16,453) | — | (16,453) |
| Net income available to Arch common shareholders | | | | \$ 462,065 | \$ 641 | \$ 462,706 |
| Underwriting Ratios | | | | | | |
| Loss ratio | 63.5% | 41.7% | 21.0% | 53.8% | 69.5% | 55.4% |
| Acquisition expense ratio | 14.9% | 20.9% | 19.7% | 17.1% | 28.6% | 18.3% |
| Other operating expense ratio | 17.0% | 14.0% | 38.8% | 17.4% | 3.2% | 16.0% |
| Combined ratio | 95.4% | 76.6% | 79.5% | 88.3% | 101.3% | 89.7% |
| Net premiums written to gross premiums written | 70.4% | 72.5% | 88.5% | 72.1% | 95.4% | 80.0% |

- (1) Certain amounts included in the gross premiums written of each segment are related to intersegment transactions and are included in the gross premiums written of each segment. Accordingly, the sum of gross premiums written for each segment does not agree to the total gross premiums written as shown in the table above due to the elimination of intersegment transactions in the total.

Arch Capital Group Ltd. and Subsidiaries
Segment Information

(U.S. Dollars in thousands)

| | Nine Months Ended September 30, 2014 | | | | | |
|---|---|-------------------|------------------|-------------------|-------------------|-------------------|
| | Insurance | Reinsurance | Mortgage | Sub-total | Other | Total |
| Gross premiums written (1) | \$ 2,309,560 | \$ 1,212,641 | \$ 169,772 | \$ 3,690,462 | \$ 190,239 | \$ 3,726,804 |
| Premiums ceded | (646,082) | (215,623) | (17,622) | (877,816) | (6,428) | (730,347) |
| Net premiums written | 1,663,478 | 997,018 | 152,150 | 2,812,646 | 183,811 | 2,996,457 |
| Change in unearned premiums | (158,878) | (23,495) | (9,606) | (191,979) | (133,895) | (325,874) |
| Net premiums earned | 1,504,600 | 973,523 | 142,544 | 2,620,667 | 49,916 | 2,670,583 |
| Other underwriting income | 1,513 | 834 | 2,970 | 5,317 | — | 5,317 |
| Losses and loss adjustment expenses | (936,615) | (413,745) | (39,938) | (1,390,298) | (33,133) | (1,423,431) |
| Acquisition expenses, net | (235,156) | (199,673) | (32,593) | (467,422) | (14,625) | (482,047) |
| Other operating expenses | (250,111) | (110,198) | (48,077) | (408,386) | (4,402) | (412,788) |
| Underwriting income (loss) | \$ 84,231 | \$ 250,741 | \$ 24,906 | 359,878 | (2,244) | 357,634 |
| Net investment income | | | | 211,690 | 8,399 | 220,089 |
| Net realized gains (losses) | | | | 102,074 | (9,718) | 92,356 |
| Net impairment losses recognized in earnings | | | | (26,313) | — | (26,313) |
| Equity in net income (loss) of investment funds accounted for using the equity method | | | | 17,459 | — | 17,459 |
| Other income (loss) | | | | (5,069) | — | (5,069) |
| Other expenses | | | | (36,512) | (2,329) | (38,841) |
| Interest expense | | | | (32,890) | — | (32,890) |
| Net foreign exchange gains (losses) | | | | 48,191 | (1,017) | 47,174 |
| Income before income taxes | | | | 638,508 | (6,909) | 631,599 |
| Income tax expense | | | | (17,473) | — | (17,473) |
| Net income | | | | 621,035 | (6,909) | 614,126 |
| Dividends attributable to redeemable noncontrolling interests | | | | — | (9,818) | (9,818) |
| Amounts attributable to nonredeemable noncontrolling interests | | | | — | 14,883 | 14,883 |
| Net income available to Arch | | | | 621,035 | (1,844) | 619,191 |
| Preferred dividends | | | | (16,453) | — | (16,453) |
| Net income available to Arch common shareholders | | | | \$ 604,582 | \$ (1,844) | \$ 602,738 |
| Underwriting Ratios | | | | | | |
| Loss ratio | 62.3% | 42.5% | 28.0% | 53.1% | 66.4% | 53.3% |
| Acquisition expense ratio | 15.6% | 20.5% | 22.9% | 17.8% | 29.3% | 18.1% |
| Other operating expense ratio | 16.6% | 11.3% | 33.7% | 15.6% | 8.8% | 15.5% |
| Combined ratio | 94.5% | 74.3% | 84.6% | 86.5% | 104.5% | 86.9% |
| Net premiums written to gross premiums written | 72.0% | 82.2% | 89.6% | 76.2% | 96.6% | 80.4% |

- (1) Certain amounts included in the gross premiums written of each segment are related to intersegment transactions and are included in the gross premiums written of each segment. Accordingly, the sum of gross premiums written for each segment does not agree to the total gross premiums written as shown in the table above due to the elimination of intersegment transactions in the total.

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Insurance Segment

(U.S. Dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | | |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Gross premiums written | \$ 752,438 | \$ 744,810 | \$ 766,153 | \$ 699,109 | \$ 726,683 | \$ 2,263,401 | \$ 2,309,560 |
| Premiums ceded | (209,443) | (235,743) | (224,150) | (215,933) | (187,689) | (669,336) | (646,082) |
| Net premiums written | 542,995 | 509,067 | 542,003 | 483,176 | 538,994 | 1,594,065 | 1,663,478 |
| Change in unearned premiums | (20,451) | 758 | (34,089) | 29,594 | (19,607) | (53,782) | (158,878) |
| Net premiums earned | 522,544 | 509,825 | 507,914 | 512,770 | 519,387 | 1,540,283 | 1,504,600 |
| Other underwriting income | 519 | 521 | 427 | 622 | 499 | 1,467 | 1,513 |
| Losses and loss adjustment expenses | (339,859) | (320,926) | (317,896) | (324,338) | (338,319) | (978,681) | (936,615) |
| Acquisition expenses, net | (77,076) | (76,723) | (75,078) | (81,152) | (81,775) | (228,877) | (235,156) |
| Other operating expenses | (84,620) | (89,054) | (88,119) | (85,046) | (83,138) | (261,793) | (250,111) |
| Underwriting income | \$ 21,508 | \$ 23,643 | \$ 27,248 | \$ 22,856 | \$ 16,654 | \$ 72,399 | \$ 84,231 |
| Underwriting Ratios | | | | | | | |
| Loss ratio | 65.0 % | 62.9 % | 62.6 % | 63.3 % | 65.1 % | 63.5 % | 62.3 % |
| Acquisition expense ratio | 14.8 % | 15.0 % | 14.8 % | 15.8 % | 15.7 % | 14.9 % | 15.6 % |
| Other operating expense ratio | 16.2 % | 17.5 % | 17.3 % | 16.6 % | 16.0 % | 17.0 % | 16.6 % |
| Combined ratio | 96.0 % | 95.4 % | 94.7 % | 95.7 % | 96.8 % | 95.4 % | 94.5 % |
| Catastrophic activity and prior year development: | | | | | | | |
| Current accident year catastrophic events, net of reinsurance and reinstatement premiums | 1.6 % | 1.2 % | 0.6 % | 1.1 % | 0.4 % | 1.2 % | 0.6 % |
| Net (favorable) adverse development in prior year loss reserves, net of related adjustments | (1.4)% | (3.4)% | (1.0)% | (1.8)% | (1.6)% | (1.9)% | (2.3)% |
| Combined ratio excluding catastrophic activity and prior year development (1) | 95.8 % | 97.6 % | 95.1 % | 96.4 % | 98.0 % | 96.1 % | 96.2 % |
| Net premiums written to gross premiums written | 72.2 % | 68.3 % | 70.7 % | 69.1 % | 74.2 % | 70.4 % | 72.0 % |

(1) See Comments on Regulation G.

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Insurance Segment

(U.S. Dollars in thousands)

| | Three Months Ended | | | | | | | | | | Nine Months Ended | | | |
|---------------------------------------|--------------------|--------|---------------|--------|----------------|--------|-------------------|--------|--------------------|--------|--------------------|--------|--------------------|--------|
| | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2014 | | September 30, 2015 | | September 30, 2014 | |
| Net premiums written | | | | | | | | | | | | | | |
| Programs | \$ 120,028 | 22.1% | \$ 106,179 | 20.9% | \$ 118,197 | 21.8% | \$ 102,391 | 21.2% | \$ 129,227 | 24.0% | \$ 344,404 | 21.6% | \$ 378,189 | 22.7% |
| Professional lines (1) | 118,563 | 21.8% | 100,100 | 19.7% | 111,178 | 20.5% | 119,487 | 24.7% | 119,798 | 22.2% | 329,841 | 20.7% | 357,117 | 21.5% |
| Construction and national accounts | 60,320 | 11.1% | 77,096 | 15.1% | 96,503 | 17.8% | 56,984 | 11.8% | 55,342 | 10.3% | 233,919 | 14.7% | 230,010 | 13.8% |
| Property, energy, marine and aviation | 51,802 | 9.5% | 62,049 | 12.2% | 58,667 | 10.8% | 43,869 | 9.1% | 53,485 | 9.9% | 172,518 | 10.8% | 200,771 | 12.1% |
| Excess and surplus casualty (2) | 51,170 | 9.4% | 53,971 | 10.6% | 49,370 | 9.1% | 59,238 | 12.3% | 50,552 | 9.4% | 154,511 | 9.7% | 153,281 | 9.2% |
| Travel, accident and health | 49,386 | 9.1% | 35,416 | 7.0% | 38,912 | 7.2% | 26,001 | 5.4% | 44,500 | 8.3% | 123,714 | 7.8% | 119,731 | 7.2% |
| Lenders products | 29,212 | 5.4% | 24,011 | 4.7% | 22,816 | 4.2% | 25,693 | 5.3% | 27,799 | 5.2% | 76,039 | 4.8% | 74,714 | 4.5% |
| Other (3) | 62,514 | 11.5% | 50,245 | 9.9% | 46,360 | 8.6% | 49,513 | 10.2% | 58,291 | 10.8% | 159,119 | 10.0% | 149,665 | 9.0% |
| Total | \$ 542,995 | 100.0% | \$ 509,067 | 100.0% | \$ 542,003 | 100.0% | \$ 483,176 | 100.0% | \$ 538,994 | 100.0% | \$ 1,594,065 | 100.0% | \$ 1,663,478 | 100.0% |
| Client location | | | | | | | | | | | | | | |
| United States | \$ 447,456 | 82.4% | \$ 436,106 | 85.7% | \$ 445,858 | 82.3% | \$ 389,125 | 80.5% | \$ 448,932 | 83.3% | \$ 1,329,420 | 83.4% | \$ 1,337,056 | 80.4% |
| Europe | 47,640 | 8.8% | 30,761 | 6.0% | 67,282 | 12.4% | 55,959 | 11.6% | 40,810 | 7.6% | 145,683 | 9.1% | 184,177 | 11.1% |
| Asia and Pacific | 24,264 | 4.5% | 14,000 | 2.8% | 11,983 | 2.2% | 15,834 | 3.3% | 21,314 | 4.0% | 50,247 | 3.2% | 63,730 | 3.8% |
| Other | 23,635 | 4.4% | 28,200 | 5.5% | 16,880 | 3.1% | 22,258 | 4.6% | 27,938 | 5.2% | 68,715 | 4.3% | 78,515 | 4.7% |
| Total | \$ 542,995 | 100.0% | \$ 509,067 | 100.0% | \$ 542,003 | 100.0% | \$ 483,176 | 100.0% | \$ 538,994 | 100.0% | \$ 1,594,065 | 100.0% | \$ 1,663,478 | 100.0% |
| Underwriting location | | | | | | | | | | | | | | |
| United States | \$ 443,367 | 81.7% | \$ 421,830 | 82.9% | \$ 438,865 | 81.0% | \$ 380,828 | 78.8% | \$ 442,193 | 82.0% | \$ 1,304,062 | 81.8% | \$ 1,308,059 | 78.6% |
| Europe | 87,043 | 16.0% | 70,901 | 13.9% | 92,418 | 17.1% | 86,791 | 18.0% | 82,820 | 15.4% | 250,362 | 15.7% | 307,639 | 18.5% |
| Other | 12,585 | 2.3% | 16,336 | 3.2% | 10,720 | 2.0% | 15,557 | 3.2% | 13,981 | 2.6% | 39,641 | 2.5% | 47,780 | 2.9% |
| Total | \$ 542,995 | 100.0% | \$ 509,067 | 100.0% | \$ 542,003 | 100.0% | \$ 483,176 | 100.0% | \$ 538,994 | 100.0% | \$ 1,594,065 | 100.0% | \$ 1,663,478 | 100.0% |
| Net premiums earned | | | | | | | | | | | | | | |
| Programs | \$ 115,502 | 22.1% | \$ 112,942 | 22.2% | \$ 115,964 | 22.8% | \$ 119,081 | 23.2% | \$ 118,087 | 22.7% | \$ 344,408 | 22.4% | \$ 341,311 | 22.7% |
| Professional lines (1) | 106,283 | 20.3% | 107,420 | 21.1% | 107,872 | 21.2% | 109,529 | 21.4% | 118,204 | 22.8% | 321,575 | 20.9% | 346,979 | 23.1% |
| Construction and national accounts | 75,256 | 14.4% | 71,580 | 14.0% | 72,230 | 14.2% | 68,529 | 13.4% | 68,229 | 13.1% | 219,066 | 14.2% | 209,282 | 13.9% |
| Property, energy, marine and aviation | 55,106 | 10.5% | 53,825 | 10.6% | 55,081 | 10.8% | 57,732 | 11.3% | 59,432 | 11.4% | 164,012 | 10.6% | 187,242 | 12.4% |
| Excess and surplus casualty (2) | 53,366 | 10.2% | 51,709 | 10.1% | 52,347 | 10.3% | 50,601 | 9.9% | 48,716 | 9.4% | 157,422 | 10.2% | 131,423 | 8.7% |
| Travel, accident and health | 39,918 | 7.6% | 39,979 | 7.8% | 33,732 | 6.6% | 33,990 | 6.6% | 34,991 | 6.7% | 113,629 | 7.4% | 93,701 | 6.2% |
| Lenders products | 23,956 | 4.6% | 21,259 | 4.2% | 22,859 | 4.5% | 24,252 | 4.7% | 23,591 | 4.5% | 68,074 | 4.4% | 70,186 | 4.7% |
| Other (3) | 53,157 | 10.2% | 51,111 | 10.0% | 47,829 | 9.4% | 49,056 | 9.6% | 48,137 | 9.3% | 152,097 | 9.9% | 124,476 | 8.3% |
| Total | \$ 522,544 | 100.0% | \$ 509,825 | 100.0% | \$ 507,914 | 100.0% | \$ 512,770 | 100.0% | \$ 519,387 | 100.0% | \$ 1,540,283 | 100.0% | \$ 1,504,600 | 100.0% |

(1) Includes professional liability, executive assurance and healthcare business.

(2) Includes casualty and contract binding business.

(3) Includes alternative markets, excess workers' compensation and surety business.

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Reinsurance Segment

(U.S. Dollars in thousands)

| | Three Months Ended | | | | | Nine Months Ended | |
|---|--------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| | September 30, | June 30, | March 31, | December 31, | September 30, | September 30, | |
| | 2015 | 2015 | 2015 | 2014 | 2014 | 2015 | 2014 |
| Gross premiums written | \$ 329,327 | \$ 342,101 | \$ 485,112 | \$ 314,604 | \$ 345,747 | \$ 1,156,540 | \$ 1,212,641 |
| Premiums ceded | (92,182) | (89,446) | (136,569) | (45,631) | (83,502) | (318,197) | (215,623) |
| Net premiums written | 237,145 | 252,655 | 348,543 | 268,973 | 262,245 | 838,343 | 997,018 |
| Change in unearned premiums | 23,286 | 21,310 | (68,826) | 36,832 | 34,303 | (24,230) | (23,495) |
| Net premiums earned | 260,431 | 273,965 | 279,717 | 305,805 | 296,548 | 814,113 | 973,523 |
| Other underwriting income | 2,783 | 2,658 | 1,429 | 2,333 | 215 | 6,870 | 834 |
| Losses and loss adjustment expenses | (115,780) | (111,183) | (112,532) | (118,705) | (123,784) | (339,495) | (413,745) |
| Acquisition expenses, net | (55,416) | (58,360) | (56,604) | (61,765) | (60,205) | (170,380) | (199,673) |
| Other operating expenses | (37,131) | (39,007) | (38,044) | (37,766) | (36,337) | (114,182) | (110,198) |
| Underwriting income | \$ 54,887 | \$ 68,073 | \$ 73,966 | \$ 89,902 | \$ 76,437 | \$ 196,926 | \$ 250,741 |
| Underwriting Ratios | | | | | | | |
| Loss ratio | 44.5 % | 40.6 % | 40.2 % | 38.8 % | 41.7 % | 41.7 % | 42.5 % |
| Acquisition expense ratio | 21.3 % | 21.3 % | 20.2 % | 20.2 % | 20.3 % | 20.9 % | 20.5 % |
| Other operating expense ratio | 14.3 % | 14.2 % | 13.6 % | 12.3 % | 12.3 % | 14.0 % | 11.3 % |
| Combined ratio | 80.1 % | 76.1 % | 74.0 % | 71.3 % | 74.3 % | 76.6 % | 74.3 % |
| Catastrophic activity and prior year development: | | | | | | | |
| Current accident year catastrophic events, net of reinsurance and reinstatement premiums | 4.0 % | 3.6 % | 0.5 % | 4.7 % | 4.1 % | 2.7 % | 2.9 % |
| Net (favorable) adverse development in prior year loss reserves, net of related adjustments | (18.5)% | (21.5)% | (20.5)% | (20.7)% | (20.4)% | (20.2)% | (20.4)% |
| Combined ratio excluding catastrophic activity and prior year development (1) | 94.6 % | 94.0 % | 94.0 % | 87.3 % | 90.6 % | 94.1 % | 91.8 % |
| Net premiums written to gross premiums written | 72.0 % | 73.9 % | 71.8 % | 85.5 % | 75.8 % | 72.5 % | 82.2 % |

(1) See Comments on Regulation G.

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Reinsurance Segment

(U.S. Dollars in thousands)

| | Three Months Ended | | | | | | | | | | | | Nine Months Ended | | | |
|---|--------------------|--------|---------------|---------|----------------|--------|-------------------|--------|--------------------|--------|--------------------|--------|--------------------|--------|--|--|
| | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2014 | | September 30, 2015 | | September 30, 2014 | | | |
| Net premiums written | | | | | | | | | | | | | | | | |
| Casualty (1) | \$ 63,395 | 26.7% | \$ 64,778 | 25.6 % | \$ 117,858 | 33.8% | \$ 59,412 | 22.1% | \$ 64,048 | 24.4% | \$ 246,031 | 29.3% | \$ 258,584 | 25.9% | | |
| Other specialty (2) | 63,293 | 26.7% | 72,134 | 28.6 % | 101,148 | 29.0% | 67,094 | 24.9% | 84,702 | 32.3% | 236,575 | 28.2% | 338,032 | 33.9% | | |
| Property excluding property catastrophe (3) | 72,456 | 30.6% | 57,005 | 22.6 % | 89,924 | 25.8% | 115,843 | 43.1% | 77,186 | 29.4% | 219,385 | 26.2% | 227,200 | 22.8% | | |
| Property catastrophe | 21,366 | 9.0% | 46,046 | 18.2 % | 15,443 | 4.4% | 6,917 | 2.6% | 24,056 | 9.2% | 82,855 | 9.9% | 130,554 | 13.1% | | |
| Marine and aviation | 12,221 | 5.2% | 9,461 | 3.7 % | 20,844 | 6.0% | 16,886 | 6.3% | 9,767 | 3.7% | 42,526 | 5.1% | 33,558 | 3.4% | | |
| Other (4) | 4,414 | 1.9% | 3,231 | 1.3 % | 3,326 | 1.0% | 2,821 | 1.0% | 2,486 | 0.9% | 10,971 | 1.3% | 9,090 | 0.9% | | |
| Total | \$ 237,145 | 100.0% | \$ 252,655 | 100.0 % | \$ 348,543 | 100.0% | \$ 268,973 | 100.0% | \$ 262,245 | 100.0% | \$ 838,343 | 100.0% | \$ 997,018 | 100.0% | | |
| Pro rata | \$ 138,367 | 58.3% | \$ 128,976 | 51.0 % | \$ 130,235 | 37.4% | \$ 204,803 | 76.1% | \$ 160,472 | 61.2% | \$ 397,578 | 47.4% | \$ 458,332 | 46.0% | | |
| Excess of loss | 98,778 | 41.7% | 123,679 | 49.0 % | 218,308 | 62.6% | 64,170 | 23.9% | 101,773 | 38.8% | 440,765 | 52.6% | 538,686 | 54.0% | | |
| Total | \$ 237,145 | 100.0% | \$ 252,655 | 100.0 % | \$ 348,543 | 100.0% | \$ 268,973 | 100.0% | \$ 262,245 | 100.0% | \$ 838,343 | 100.0% | \$ 997,018 | 100.0% | | |
| Client location | | | | | | | | | | | | | | | | |
| United States | \$ 128,830 | 54.3% | \$ 130,780 | 51.8 % | \$ 140,687 | 40.4% | \$ 107,392 | 39.9% | \$ 123,966 | 47.3% | \$ 400,297 | 47.7% | \$ 481,863 | 48.3% | | |
| Europe | 48,359 | 20.4% | 55,566 | 22.0 % | 142,939 | 41.0% | 61,967 | 23.0% | 62,102 | 23.7% | 246,864 | 29.4% | 293,768 | 29.5% | | |
| Asia and Pacific | 31,492 | 13.3% | 24,729 | 9.8 % | 14,134 | 4.1% | 70,122 | 26.1% | 24,590 | 9.4% | 70,355 | 8.4% | 72,504 | 7.3% | | |
| Bermuda | 15,544 | 6.6% | 22,503 | 8.9 % | 24,249 | 7.0% | 12,011 | 4.5% | 25,537 | 9.7% | 62,296 | 7.4% | 65,609 | 6.6% | | |
| Other | 12,920 | 5.4% | 19,077 | 7.6 % | 26,534 | 7.6% | 17,481 | 6.5% | 26,050 | 9.9% | 58,531 | 7.0% | 83,274 | 8.4% | | |
| Total | \$ 237,145 | 100.0% | \$ 252,655 | 100.0 % | \$ 348,543 | 100.0% | \$ 268,973 | 100.0% | \$ 262,245 | 100.0% | \$ 838,343 | 100.0% | \$ 997,018 | 100.0% | | |
| Underwriting location | | | | | | | | | | | | | | | | |
| Bermuda | \$ 56,718 | 23.9% | \$ 89,363 | 35.4 % | \$ 85,220 | 24.5% | \$ 121,459 | 45.2% | \$ 65,891 | 25.1% | \$ 231,301 | 27.6% | \$ 272,892 | 27.4% | | |
| United States | 117,216 | 49.4% | 102,057 | 40.4 % | 138,467 | 39.7% | 90,655 | 33.7% | 120,095 | 45.8% | 357,740 | 42.7% | 402,236 | 40.3% | | |
| Europe | 53,717 | 22.7% | 63,587 | 25.2 % | 121,983 | 35.0% | 50,539 | 18.8% | 64,341 | 24.5% | 239,287 | 28.5% | 293,284 | 29.4% | | |
| Other | 9,494 | 4.0% | (2,352) | (0.9)% | 2,873 | 0.8% | 6,320 | 2.3% | 11,918 | 4.5% | 10,015 | 1.2% | 28,606 | 2.9% | | |
| Total | \$ 237,145 | 100.0% | \$ 252,655 | 100.0 % | \$ 348,543 | 100.0% | \$ 268,973 | 100.0% | \$ 262,245 | 100.0% | \$ 838,343 | 100.0% | \$ 997,018 | 100.0% | | |
| Net premiums earned | | | | | | | | | | | | | | | | |
| Casualty (1) | \$ 75,061 | 28.8% | \$ 83,186 | 30.4 % | \$ 73,381 | 26.2% | \$ 79,119 | 25.9% | \$ 79,477 | 26.8% | \$ 231,628 | 28.5% | \$ 248,399 | 25.5% | | |
| Other specialty (2) | 72,337 | 27.8% | 80,256 | 29.3 % | 83,798 | 30.0% | 93,946 | 30.7% | 97,337 | 32.8% | 236,391 | 29.0% | 330,779 | 34.0% | | |
| Property excluding property catastrophe (3) | 72,267 | 27.7% | 69,600 | 25.4 % | 79,764 | 28.5% | 87,287 | 28.5% | 71,663 | 24.2% | 221,631 | 27.2% | 216,209 | 22.2% | | |
| Property catastrophe | 23,325 | 9.0% | 24,325 | 8.9 % | 27,270 | 9.7% | 28,674 | 9.4% | 32,423 | 10.9% | 74,920 | 9.2% | 122,087 | 12.5% | | |
| Marine and aviation | 13,708 | 5.3% | 13,423 | 4.9 % | 12,613 | 4.5% | 13,854 | 4.5% | 13,110 | 4.4% | 39,744 | 4.9% | 47,264 | 4.9% | | |
| Other (4) | 3,733 | 1.4% | 3,175 | 1.2 % | 2,891 | 1.0% | 2,925 | 1.0% | 2,538 | 0.9% | 9,799 | 1.2% | 8,785 | 0.9% | | |
| Total | \$ 260,431 | 100.0% | \$ 273,965 | 100.0 % | \$ 279,717 | 100.0% | \$ 305,805 | 100.0% | \$ 296,548 | 100.0% | \$ 814,113 | 100.0% | \$ 973,523 | 100.0% | | |
| Pro rata | \$ 132,090 | 50.7% | \$ 143,835 | 52.5 % | \$ 153,515 | 54.9% | \$ 163,590 | 53.5% | \$ 156,830 | 52.9% | \$ 429,440 | 52.7% | \$ 522,611 | 53.7% | | |
| Excess of loss | 128,341 | 49.3% | 130,130 | 47.5 % | 126,202 | 45.1% | 142,215 | 46.5% | 139,718 | 47.1% | 384,673 | 47.3% | 450,912 | 46.3% | | |
| Total | \$ 260,431 | 100.0% | \$ 273,965 | 100.0 % | \$ 279,717 | 100.0% | \$ 305,805 | 100.0% | \$ 296,548 | 100.0% | \$ 814,113 | 100.0% | \$ 973,523 | 100.0% | | |

(1) Includes proportional motor, surety, accident and health, workers' compensation catastrophe, agriculture, trade credit and other.

(2) Includes executive assurance, professional liability, workers' compensation, excess motor, healthcare and other.

(3) Includes facultative business.

(4) Includes life, casualty clash and other.

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Mortgage Segment

(U.S. Dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | | |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Gross premiums written | \$ 74,657 | \$ 68,572 | \$ 60,541 | \$ 57,584 | \$ 66,389 | \$ 203,770 | \$ 169,772 |
| Premiums ceded | (7,832) | (6,902) | (8,670) | (4,897) | (7,904) | (23,404) | (17,622) |
| Net premiums written | 66,825 | 61,670 | 51,871 | 52,687 | 58,485 | 180,366 | 152,150 |
| Change in unearned premiums | (12,277) | (9,211) | (1,504) | (1,658) | (5,539) | (22,992) | (9,606) |
| Net premiums earned | 54,548 | 52,459 | 50,367 | 51,029 | 52,946 | 157,374 | 142,544 |
| Other underwriting income (1) | 3,565 | 3,686 | 7,718 | 1,870 | 988 | 14,969 | 2,970 |
| Losses and loss adjustment expenses | (9,562) | (9,639) | (13,809) | (15,736) | (15,987) | (33,010) | (39,938) |
| Acquisition expenses, net | (10,428) | (10,200) | (10,418) | (16,807) | (11,958) | (31,046) | (32,593) |
| Other operating expenses | (21,048) | (19,679) | (20,369) | (18,814) | (17,913) | (61,096) | (48,077) |
| Underwriting income | \$ 17,075 | \$ 16,627 | \$ 13,489 | \$ 1,542 | \$ 8,076 | \$ 47,191 | \$ 24,906 |
| Underwriting Ratios | | | | | | | |
| Loss ratio | 17.5 % | 18.4 % | 27.4 % | 30.8% | 30.2 % | 21.0 % | 28.0 % |
| Acquisition expense ratio | 19.1 % | 19.4 % | 20.7 % | 32.9% | 22.6 % | 19.7 % | 22.9 % |
| Other operating expense ratio | 38.6 % | 37.5 % | 40.4 % | 36.9% | 33.8 % | 38.8 % | 33.7 % |
| Combined ratio | 75.2 % | 75.3 % | 88.5 % | 100.6% | 86.6 % | 79.5 % | 84.6 % |
| Net (favorable) adverse development in prior year loss reserves, net of related adjustments | (7.3)% | (2.1)% | (5.6)% | 1.7% | (1.4)% | (5.0)% | (1.3)% |
| Combined ratio excluding prior year development (2) | 82.5 % | 77.4 % | 94.1 % | 98.9% | 88.0 % | 84.5 % | 85.9 % |
| Net premiums written to gross premiums written | 89.5 % | 89.9 % | 85.7 % | 91.5% | 88.1 % | 88.5 % | 89.6 % |
| Net premiums written by client location | | | | | | | |
| United States | \$ 48,611 | \$ 47,460 | \$ 45,822 | \$ 47,027 | \$ 54,639 | \$ 141,893 | \$ 137,306 |
| Other | 18,214 | 14,210 | 6,049 | 5,660 | 3,846 | 38,473 | 14,844 |
| Total | \$ 66,825 | \$ 61,670 | \$ 51,871 | \$ 52,687 | \$ 58,485 | \$ 180,366 | \$ 152,150 |
| Net premiums written by underwriting location | | | | | | | |
| United States | \$ 33,298 | \$ 30,589 | \$ 27,956 | \$ 25,255 | \$ 32,229 | \$ 91,843 | \$ 73,554 |
| Other | 33,527 | 31,081 | 23,915 | 27,432 | 26,256 | 88,523 | 78,596 |
| Total | \$ 66,825 | \$ 61,670 | \$ 51,871 | \$ 52,687 | \$ 58,485 | \$ 180,366 | \$ 152,150 |

(1) Represents income earned on various risk-sharing products offered to government sponsored enterprises and mortgage lenders.

(2) See Comments on Regulation G.

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Mortgage Segment

| (U.S. Dollars in millions) | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | |
|--|--------------------|----------------|------------------|----------------|------------------|----------------|-------------------|----------------|
| Insurance In Force (IIF) (1) | | | | | | | | |
| U.S. mortgage insurance | \$ 25,697 | 39.8 % | \$ 24,175 | 41.6 % | \$ 22,984 | 40.9 % | \$ 22,402 | 47.1 % |
| Mortgage reinsurance | 19,550 | 30.3 % | 19,245 | 33.1 % | 20,262 | 36.1 % | 20,772 | 43.7 % |
| Other (2) | 19,357 | 30.0 % | 14,734 | 25.3 % | 12,944 | 23.0 % | 4,400 | 9.2 % |
| Total | <u>\$ 64,604</u> | <u>100.0 %</u> | <u>\$ 58,154</u> | <u>100.0 %</u> | <u>\$ 56,190</u> | <u>100.0 %</u> | <u>\$ 47,574</u> | <u>100.0 %</u> |
| Risk In Force (RIF) (3) | | | | | | | | |
| U.S. mortgage insurance | \$ 6,467 | 63.0 % | \$ 6,053 | 63.7 % | \$ 5,733 | 61.7 % | \$ 5,600 | 64.1 % |
| Mortgage reinsurance | 3,008 | 29.3 % | 2,776 | 29.2 % | 2,936 | 31.6 % | 3,008 | 34.4 % |
| Other (2) | 796 | 7.7 % | 679 | 7.1 % | 616 | 6.6 % | 135 | 1.5 % |
| Total | <u>\$ 10,271</u> | <u>100.0 %</u> | <u>\$ 9,508</u> | <u>100.0 %</u> | <u>\$ 9,285</u> | <u>100.0 %</u> | <u>\$ 8,743</u> | <u>100.0 %</u> |
| Supplemental disclosures for U.S. mortgage insurance: | | | | | | | | |
| Total RIF by credit quality (FICO score): | | | | | | | | |
| >=740 | \$ 3,532 | 54.6 % | \$ 3,238 | 53.5 % | \$ 3,009 | 52.5 % | \$ 2,917 | 52.1 % |
| 680-739 | 2,114 | 32.7 % | 1,994 | 32.9 % | 1,895 | 33.1 % | 1,846 | 33.0 % |
| 620-679 | 705 | 10.9 % | 696 | 11.5 % | 698 | 12.2 % | 700 | 12.5 % |
| <620 | 116 | 1.8 % | 125 | 2.1 % | 131 | 2.3 % | 137 | 2.4 % |
| Total | <u>\$ 6,467</u> | <u>100.0 %</u> | <u>\$ 6,053</u> | <u>100.0 %</u> | <u>\$ 5,733</u> | <u>100.0 %</u> | <u>\$ 5,600</u> | <u>100.0 %</u> |
| Weighted average FICO score | 737 | | 735 | | 734 | | 733 | |
| Total RIF by Loan-To-Value (LTV): | | | | | | | | |
| 95.01% and above | \$ 1,045 | 16.2 % | \$ 1,093 | 18.1 % | \$ 1,102 | 19.2 % | \$ 1,123 | 20.1 % |
| 90.01% to 95.00% | 3,252 | 50.3 % | 2,959 | 48.9 % | 2,742 | 47.8 % | 2,652 | 47.4 % |
| 85.01% to 90.00% | 1,831 | 28.3 % | 1,685 | 27.8 % | 1,590 | 27.7 % | 1,552 | 27.7 % |
| 85.00% and below | 339 | 5.2 % | 316 | 5.2 % | 299 | 5.2 % | 273 | 4.9 % |
| Total | <u>\$ 6,467</u> | <u>100.0 %</u> | <u>\$ 6,053</u> | <u>100.0 %</u> | <u>\$ 5,733</u> | <u>100.0 %</u> | <u>\$ 5,600</u> | <u>100.0 %</u> |
| Weighted average LTV | 93.2% | | 93.2% | | 93.3% | | 93.4% | |
| Total RIF by State: | | | | | | | | |
| Wisconsin | \$ 574 | 8.9 % | \$ 554 | 9.2 % | \$ 536 | 9.3 % | \$ 538 | 9.6 % |
| California | 570 | 8.8 % | 527 | 8.7 % | 492 | 8.6 % | 480 | 8.6 % |
| Texas | 355 | 5.5 % | 325 | 5.4 % | 307 | 5.4 % | 302 | 5.4 % |
| Florida | 310 | 4.8 % | 297 | 4.9 % | 280 | 4.9 % | 273 | 4.9 % |
| Minnesota | 306 | 4.7 % | 291 | 4.8 % | 278 | 4.8 % | 274 | 4.9 % |
| Washington | 247 | 3.8 % | 243 | 4.0 % | 234 | 4.1 % | 232 | 4.1 % |
| Massachusetts | 235 | 3.6 % | 217 | 3.6 % | 213 | 3.7 % | 210 | 3.8 % |
| Michigan | 220 | 3.4 % | 200 | 3.3 % | 186 | 3.2 % | 181 | 3.2 % |
| Virginia | 213 | 3.3 % | 215 | 3.6 % | 206 | 3.6 % | 200 | 3.6 % |
| Alaska | 205 | 3.2 % | 208 | 3.4 % | 209 | 3.6 % | 209 | 3.7 % |
| Others | 3,232 | 50.0 % | 2,976 | 49.2 % | 2,792 | 48.7 % | 2,701 | 48.2 % |
| Total | <u>\$ 6,467</u> | <u>100.0 %</u> | <u>\$ 6,053</u> | <u>100.0 %</u> | <u>\$ 5,733</u> | <u>100.0 %</u> | <u>\$ 5,600</u> | <u>100.0 %</u> |
| Weighted average coverage (end of period RIF divided by IIF) | 25.2% | | 25.0% | | 24.9% | | 25.0% | |
| Analysts' persistency (4) | 76.0% | | 78.2% | | 79.6% | | 80.9% | |
| Risk-to-capital ratio (5) | 10.2:1 | | 9.7:1 | | 9.3:1 | | 9.5:1 | |

(1) The aggregate dollar amount of each insured mortgage loan's original principal balance.
(3) The aggregate dollar amount of each insured mortgage loan's current principal balance multiplied by the insurance coverage percentage specified in the policy for insurance policies issued and after contract limits and/or loss ratio caps for risk-sharing or reinsurance transactions.

(2) Includes GSE credit risk-sharing transactions and international insurance business.
(4) Represents the % of IIF at the beginning of a 12-month period that remained in force at the end of the period.
(5) Represents total current (non-delinquent) RIF, net of reinsurance, divided by total statutory capital. Ratio calculated for Arch MI U.S. only (estimate for September 30, 2015).

Arch Capital Group Ltd. and Subsidiaries
Segment Information — Mortgage Segment

(U.S. Dollars in millions, except policy/loan/claim count)

| | Three Months Ended | | | | | | | | Nine Months Ended | |
|--|--------------------|--------|---------------|--------|----------------|--------|-------------------|--------|--------------------|--------|
| | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2015 | |
| Supplemental disclosures for U.S. mortgage insurance: | | | | | | | | | | |
| Total new insurance written (NIW) (1) | \$ 3,179 | | \$ 2,709 | | \$ 1,808 | | \$ 1,359 | | \$ 7,696 | |
| Total NIW by credit quality (FICO score): | | | | | | | | | | |
| >=740 | \$ 1,973 | 62.1% | \$ 1,723 | 63.6% | \$ 1,064 | 58.8% | \$ 730 | 53.7% | \$ 4,760 | 61.9% |
| 680-739 | 976 | 30.7% | 842 | 31.1% | 602 | 33.3% | 480 | 35.3% | 2,420 | 31.4% |
| 620-679 | 230 | 7.2% | 143 | 5.3% | 142 | 7.9% | 149 | 11.0% | 515 | 6.7% |
| <620 | — | —% | 1 | —% | — | —% | — | —% | 1 | —% |
| Total | \$ 3,179 | 100.0% | \$ 2,709 | 100.0% | \$ 1,808 | 100.0% | \$ 1,359 | 100.0% | \$ 7,696 | 100.0% |
| Total NIW by LTV: | | | | | | | | | | |
| 95.01% and above | \$ 219 | 6.9% | \$ 165 | 6.1% | \$ 86 | 4.8% | \$ 79 | 5.8% | \$ 470 | 6.1% |
| 90.01% to 95.00% | 1,458 | 45.9% | 1,227 | 45.3% | 682 | 37.7% | 620 | 45.6% | 3,367 | 43.8% |
| 85.01% to 90.00% | 1,054 | 33.2% | 908 | 33.5% | 583 | 32.2% | 389 | 28.6% | 2,545 | 33.1% |
| 85.01% and below | 448 | 14.1% | 409 | 15.1% | 457 | 25.3% | 271 | 19.9% | 1,314 | 17.1% |
| Total | \$ 3,179 | 100.0% | \$ 2,709 | 100.0% | \$ 1,808 | 100.0% | \$ 1,359 | 100.0% | \$ 7,696 | 100.0% |
| Total NIW purchase vs. refinance: | | | | | | | | | | |
| Purchase | \$ 2,483 | 78.1% | \$ 1,830 | 67.6% | \$ 918 | 50.8% | \$ 950 | 69.9% | \$ 5,231 | 68.0% |
| Refinance | 696 | 21.9% | 879 | 32.4% | 890 | 49.2% | 409 | 30.1% | 2,465 | 32.0% |
| Total | \$ 3,179 | 100.0% | \$ 2,709 | 100.0% | \$ 1,808 | 100.0% | \$ 1,359 | 100.0% | \$ 7,696 | 100.0% |
| Ending number of policies in force (PIF) | 143,335 | | 137,724 | | 133,079 | | 131,111 | | | |
| Rollforward of insured loans in default: | | | | | | | | | | |
| Beginning delinquent number of loans | 2,850 | | 3,006 | | 3,474 | | 3,625 | | 3,474 | |
| Plus: new notices | 1,196 | | 1,145 | | 1,190 | | 1,402 | | 3,531 | |
| Less: cures | (1,057) | | (1,011) | | (1,376) | | (1,202) | | (3,444) | |
| Less: paid claims | (233) | | (292) | | (288) | | (351) | | (813) | |
| Less: delinquent rescissions and denials | 1 | | 2 | | 6 | | — | | 9 | |
| Ending delinquent number of loans | 2,757 | | 2,850 | | 3,006 | | 3,474 | | 2,757 | |
| Ending percentage of loans in default | 1.9% | | 2.1% | | 2.3% | | 2.6% | | | |
| Losses: | | | | | | | | | | |
| Number of claims paid | 233 | | 292 | | 288 | | 351 | | 813 | |
| Total paid claims (in thousands) | \$ 9,036 | | \$ 12,672 | | \$ 12,180 | | \$ 15,358 | | \$ 33,888 | |
| Average per claim (in thousands) | \$ 38.8 | | \$ 43.4 | | \$ 42.3 | | \$ 43.8 | | \$ 41.7 | |
| Severity (2) | 91.7% | | 97.0% | | 97.1% | | 99.2% | | 95.6% | |
| Average reserve per default (in thousands) | \$ 30.6 | | \$ 32.9 | | \$ 33.1 | | \$ 27.5 | | | |

- (1) The original principal balance of all loans that received coverage during the period.
(2) Represents total paid claims divided by RIF of loans for which claims were paid.

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Investable Asset Summary and Investment Portfolio Metrics

The following table summarizes the Company's investable assets and portfolio metrics:

| (U.S. Dollars in thousands) | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2014 | |
|--|-------------------------------|----------------|--------------------------|---------------|---------------------------|----------------|------------------------------|----------------|-------------------------------|----------------|
| Investable assets (1) (2): | | | | | | | | | | |
| Fixed maturities available for sale, at fair value | \$ 10,560,635 | 71.7 % | \$ 9,927,603 | 68.4% | \$ 10,427,810 | 72.2 % | \$ 10,750,770 | 73.6 % | \$ 10,733,382 | 73.6 % |
| Fixed maturities, at fair value (3) | 341,131 | 2.3 % | 387,941 | 2.7% | 348,689 | 2.4 % | 377,053 | 2.6 % | 359,409 | 2.5 % |
| Fixed maturities pledged under securities lending agreements, at fair value | 285,632 | 1.9 % | 373,969 | 2.6% | 253,115 | 1.8 % | 50,802 | 0.3 % | 107,547 | 0.7 % |
| Total fixed maturities | 11,187,398 | 75.9 % | 10,689,513 | 73.7% | 11,029,614 | 76.4 % | 11,178,625 | 76.6 % | 11,200,338 | 76.8 % |
| Short-term investments available for sale, at fair value | 708,428 | 4.8 % | 875,727 | 6.0% | 855,032 | 5.9 % | 797,226 | 5.5 % | 748,659 | 5.1 % |
| Cash | 521,137 | 3.5 % | 470,011 | 3.2% | 402,314 | 2.8 % | 474,247 | 3.2 % | 486,351 | 3.3 % |
| Equity securities available for sale, at fair value | 606,259 | 4.1 % | 701,623 | 4.8% | 687,713 | 4.8 % | 658,182 | 4.5 % | 582,075 | 4.0 % |
| Equity securities, at fair value (3) | 78 | — % | 248 | —% | 907 | — % | — | — % | — | — % |
| Other investments available for sale, at fair value | 281,014 | 1.9 % | 377,677 | 2.6% | 329,677 | 2.3 % | 296,224 | 2.0 % | 431,833 | 3.0 % |
| Other investments, at fair value (3) | 891,484 | 6.1 % | 899,763 | 6.2% | 880,660 | 6.1 % | 878,774 | 6.0 % | 833,752 | 5.7 % |
| Investments accounted for using the equity method (4) | 589,277 | 4.0 % | 472,926 | 3.3% | 412,367 | 2.9 % | 349,014 | 2.4 % | 307,252 | 2.1 % |
| Securities transactions entered into but not settled at the balance sheet date | (51,343) | (0.3)% | 26,066 | 0.2% | (162,136) | (1.1)% | (32,802) | (0.2)% | (9,835) | (0.1)% |
| Total investable assets managed by the Company | \$ 14,733,732 | 100.0 % | \$ 14,513,554 | 100.0% | \$ 14,436,148 | 100.0 % | \$ 14,599,490 | 100.0 % | \$ 14,580,425 | 100.0 % |
| Average effective duration (in years) | 3.42 | | 3.05 | | 3.35 | | 3.34 | | 3.28 | |
| Average S&P/Moody's credit ratings (5) | AA/Aa2 | | AA/Aa2 | | AA/Aa2 | | AA/Aa2 | | AA/Aa2 | |
| Embedded book yield (before investment expenses) | 2.10% | | 2.07% | | 2.21% | | 2.18% | | 2.21% | |

(1) This table excludes investable assets attributable to the 'other' segment. Such amounts are summarized as follows:

| (U.S. Dollars in thousands) | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2014 | |
|--|-------------------------------|--|--------------------------|--|---------------------------|--|------------------------------|--|-------------------------------|--|
| Investable assets in 'other' segment: | | | | | | | | | | |
| Cash | \$ 128,642 | | \$ 55,063 | | \$ 68,698 | | \$ 11,455 | | \$ 177,375 | |
| Investments accounted for using the fair value option | 1,550,472 | | 1,325,535 | | 1,191,266 | | 1,169,226 | | 1,005,532 | |
| Securities sold but not yet purchased | (25,384) | | — | | — | | — | | — | |
| Securities transactions entered into but not settled at the balance sheet date | (60,207) | | (40,024) | | 7,624 | | (17,441) | | (58,859) | |
| Total investable assets included in 'other' segment | \$ 1,593,523 | | \$ 1,340,574 | | \$ 1,267,588 | | \$ 1,163,240 | | \$ 1,124,048 | |

(2) This table excludes the collateral received and reinvested and includes the fixed maturities and short-term investments pledged under securities lending agreements, at fair value.

(3) Represents investments which are carried at fair value under the fair value option and reflected as "investments accounted for using the fair value option" on the balance sheet.

(4) Changes in the carrying value of investment funds accounted for using the equity method are recorded as "equity in net income (loss) of investment funds accounted for using the equity method" rather than as an unrealized gain or loss component of accumulated other comprehensive income.

(5) Average credit ratings on the Company's investment portfolio on securities with ratings assigned by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's").

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Composition of Fixed Maturities

The following table summarizes the Company's fixed maturities and fixed maturities pledged under securities lending agreements (excluding amounts included in the 'other' segment):

(U.S. Dollars in thousands)

| | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses | Net Unrealized Gains (Losses) | Amortized Cost | Fair Value / Amortized Cost | % of Total |
|--|----------------------|------------------------|-------------------------|-------------------------------|----------------------|-----------------------------|---------------|
| At September 30, 2015 | | | | | | | |
| Corporates | \$ 2,897,089 | \$ 27,040 | \$ (50,395) | \$ (23,355) | \$ 2,920,444 | 99.2% | 25.9% |
| Non-U.S. government-backed corporates | 110,222 | 1,378 | (4,094) | (2,716) | 112,938 | 97.6% | 1.0% |
| U.S. government and government agencies | 2,338,724 | 14,352 | (2,138) | 12,214 | 2,326,510 | 100.5% | 20.9% |
| Agency mortgage-backed securities | 594,070 | 4,000 | (1,529) | 2,471 | 591,599 | 100.4% | 5.3% |
| Non-agency mortgage-backed securities | 275,241 | 9,155 | (1,469) | 7,686 | 267,555 | 102.9% | 2.5% |
| Agency commercial mortgage-backed securities | 64,656 | 176 | (209) | (33) | 64,689 | 99.9% | 0.6% |
| Non-agency commercial mortgage-backed securities | 746,317 | 9,882 | (2,385) | 7,497 | 738,820 | 101.0% | 6.7% |
| Municipal bonds | 1,830,987 | 27,600 | (2,771) | 24,829 | 1,806,158 | 101.4% | 16.4% |
| Non-U.S. government securities | 957,543 | 13,070 | (36,488) | (23,418) | 980,961 | 97.6% | 8.6% |
| Asset-backed securities | 1,372,549 | 9,032 | (4,850) | 4,182 | 1,368,367 | 100.3% | 12.3% |
| Total | <u>\$ 11,187,398</u> | <u>\$ 115,685</u> | <u>\$ (106,328)</u> | <u>\$ 9,357</u> | <u>\$ 11,178,041</u> | 100.1% | <u>100.0%</u> |
| At December 31, 2014 | | | | | | | |
| Corporates | \$ 3,295,930 | \$ 36,682 | \$ (37,175) | \$ (493) | \$ 3,296,423 | 100.0% | 29.5% |
| Non-U.S. government-backed corporates | 83,209 | 1,246 | (1,799) | (553) | 83,762 | 99.3% | 0.7% |
| U.S. government and government agencies | 1,447,972 | 8,345 | (1,760) | 6,585 | 1,441,387 | 100.5% | 13.0% |
| Agency mortgage-backed securities | 664,151 | 7,481 | (2,133) | 5,348 | 658,803 | 100.8% | 5.9% |
| Non-agency mortgage-backed securities | 301,382 | 11,362 | (1,709) | 9,653 | 291,729 | 103.3% | 2.7% |
| Agency commercial mortgage-backed securities | 133,366 | 183 | (2,971) | (2,788) | 136,154 | 98.0% | 1.2% |
| Non-agency commercial mortgage-backed securities | 981,162 | 14,411 | (851) | 13,560 | 967,602 | 101.4% | 8.8% |
| Municipal bonds | 1,494,122 | 31,227 | (1,044) | 30,183 | 1,463,939 | 102.1% | 13.4% |
| Non-U.S. government securities | 1,099,390 | 21,311 | (37,203) | (15,892) | 1,115,282 | 98.6% | 9.8% |
| Asset-backed securities | 1,677,941 | 8,425 | (6,089) | 2,336 | 1,675,605 | 100.1% | 15.0% |
| Total | <u>\$ 11,178,625</u> | <u>\$ 140,673</u> | <u>\$ (92,734)</u> | <u>\$ 47,939</u> | <u>\$ 11,130,686</u> | 100.4% | <u>100.0%</u> |

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Credit Quality Distribution and Maturity Profile

The following table summarizes the credit quality distribution and maturity profile of the Company's fixed maturities and fixed maturities pledged under securities lending agreements, excluding amounts included in the 'other' segment:

(U.S. Dollars in thousands)

| | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2014 | |
|---|-----------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|-----------------------|----------------|
| Credit quality distribution of total fixed maturities (1) (2): | | | | | | | | | | |
| U.S. government and government agencies (3) | \$ 2,997,450 | 26.8 % | \$ 2,593,318 | 24.3 % | \$ 2,199,182 | 19.9 % | \$ 2,245,489 | 20.1 % | \$ 2,328,587 | 20.8 % |
| AAA | 3,815,981 | 34.1 % | 3,639,910 | 34.1 % | 4,166,106 | 37.8 % | 4,299,060 | 38.5 % | 4,282,341 | 38.2 % |
| AA | 1,978,961 | 17.7 % | 1,967,666 | 18.4 % | 2,000,435 | 18.1 % | 1,917,392 | 17.2 % | 1,964,325 | 17.5 % |
| A | 1,474,976 | 13.2 % | 1,474,583 | 13.8 % | 1,603,861 | 14.5 % | 1,739,922 | 15.6 % | 1,623,894 | 14.5 % |
| BBB | 335,514 | 3.0 % | 337,517 | 3.2 % | 410,147 | 3.7 % | 339,395 | 3.0 % | 322,067 | 2.9 % |
| BB | 195,888 | 1.8 % | 212,561 | 2.0 % | 195,163 | 1.8 % | 157,232 | 1.4 % | 166,799 | 1.5 % |
| B | 137,324 | 1.2 % | 170,859 | 1.6 % | 176,590 | 1.6 % | 184,869 | 1.7 % | 203,395 | 1.8 % |
| Lower than B | 132,107 | 1.2 % | 136,784 | 1.3 % | 150,000 | 1.4 % | 154,823 | 1.4 % | 157,499 | 1.4 % |
| Not rated | 119,197 | 1.1 % | 156,315 | 1.5 % | 128,130 | 1.2 % | 140,443 | 1.3 % | 151,431 | 1.4 % |
| Total fixed maturities, at fair value | <u>\$ 11,187,398</u> | <u>100.0 %</u> | <u>\$ 10,689,513</u> | <u>100.0 %</u> | <u>\$ 11,029,614</u> | <u>100.0 %</u> | <u>\$ 11,178,625</u> | <u>100.0 %</u> | <u>\$ 11,200,338</u> | <u>100.0 %</u> |
| Maturity profile of total fixed maturities (1): | | | | | | | | | | |
| Due in one year or less | \$ 349,574 | 3.1 % | \$ 387,896 | 3.6 % | \$ 288,299 | 2.6 % | \$ 247,825 | 2.2 % | \$ 266,002 | 2.4 % |
| Due after one year through five years | 4,639,733 | 41.5 % | 4,288,771 | 40.1 % | 3,983,422 | 36.1 % | 4,288,440 | 38.4 % | 4,409,460 | 39.4 % |
| Due after five years through ten years | 2,677,172 | 23.9 % | 2,556,513 | 23.9 % | 2,771,736 | 25.1 % | 2,587,397 | 23.1 % | 2,310,260 | 20.6 % |
| Due after 10 years | 468,086 | 4.2 % | 376,573 | 3.5 % | 382,273 | 3.5 % | 296,961 | 2.7 % | 273,106 | 2.4 % |
| | 8,134,565 | 72.7 % | 7,609,753 | 71.2 % | 7,425,730 | 67.3 % | 7,420,623 | 66.4 % | 7,258,828 | 64.8 % |
| Mortgage-backed securities | 869,311 | 7.8 % | 896,245 | 8.4 % | 839,621 | 7.6 % | 965,533 | 8.6 % | 984,767 | 8.8 % |
| Commercial mortgage-backed securities | 810,973 | 7.2 % | 832,159 | 7.8 % | 1,106,332 | 10.0 % | 1,114,528 | 10.0 % | 1,232,092 | 11.0 % |
| Asset-backed securities | 1,372,549 | 12.3 % | 1,351,356 | 12.6 % | 1,657,931 | 15.0 % | 1,677,941 | 15.0 % | 1,724,651 | 15.4 % |
| Total fixed maturities, at fair value | <u>\$ 11,187,398</u> | <u>100.0 %</u> | <u>\$ 10,689,513</u> | <u>100.0 %</u> | <u>\$ 11,029,614</u> | <u>100.0 %</u> | <u>\$ 11,178,625</u> | <u>100.0 %</u> | <u>\$ 11,200,338</u> | <u>100.0 %</u> |

- (1) This table excludes the collateral received and reinvested and includes the fixed maturities and short-term investments pledged under securities lending agreements, at fair value.
(2) For individual fixed maturities, S&P ratings are used. In the absence of an S&P rating, ratings from Moody's are used, followed by ratings from Fitch Ratings.
(3) Includes U.S. government-sponsored agency mortgage backed securities and agency commercial mortgage backed securities.

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Analysis of Corporate Exposures

The following table summarizes the Company's corporate bonds by sector, excluding government-backed securities and amounts included in the 'other' segment:

| (U.S. Dollars in thousands) | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | | September 30, 2014 | |
|---|-----------------------|----------------|---------------------|----------------|---------------------|----------------|----------------------|----------------|-----------------------|----------------|
| Sector: | | | | | | | | | | |
| Industrials | \$ 1,601,879 | 55.3 % | \$ 1,705,524 | 57.3 % | \$ 1,840,470 | 55.8 % | \$ 1,727,553 | 52.4 % | \$ 1,557,042 | 47.9 % |
| Financials | 933,181 | 32.2 % | 896,655 | 30.1 % | 1,014,923 | 30.8 % | 1,149,620 | 34.9 % | 1,237,335 | 38.0 % |
| Covered bonds | 162,139 | 5.6 % | 171,368 | 5.8 % | 184,197 | 5.6 % | 209,611 | 6.4 % | 232,292 | 7.1 % |
| Utilities | 147,777 | 5.1 % | 147,563 | 5.0 % | 191,341 | 5.8 % | 146,442 | 4.4 % | 148,331 | 4.6 % |
| All other (1) | 52,113 | 1.8 % | 54,936 | 1.8 % | 65,090 | 2.0 % | 62,704 | 1.9 % | 77,381 | 2.4 % |
| Total fixed maturities, at fair value | <u>\$ 2,897,089</u> | <u>100.0 %</u> | <u>\$ 2,976,046</u> | <u>100.0 %</u> | <u>\$ 3,296,021</u> | <u>100.0 %</u> | <u>\$ 3,295,930</u> | <u>100.0 %</u> | <u>\$ 3,252,381</u> | <u>100.0 %</u> |
| Credit quality distribution (2): | | | | | | | | | | |
| AAA | \$ 416,453 | 14.4 % | \$ 429,889 | 14.4 % | \$ 476,205 | 14.4 % | \$ 423,819 | 12.9 % | \$ 446,836 | 13.7 % |
| AA | 778,614 | 26.9 % | 778,677 | 26.2 % | 840,763 | 25.5 % | 773,893 | 23.5 % | 852,197 | 26.2 % |
| A | 1,109,506 | 38.3 % | 1,101,592 | 37.0 % | 1,236,797 | 37.5 % | 1,399,218 | 42.5 % | 1,211,315 | 37.2 % |
| BBB | 243,870 | 8.4 % | 243,514 | 8.2 % | 320,014 | 9.7 % | 271,826 | 8.2 % | 262,418 | 8.1 % |
| BB | 150,066 | 5.2 % | 161,134 | 5.4 % | 150,996 | 4.6 % | 127,010 | 3.9 % | 126,557 | 3.9 % |
| B | 120,056 | 4.1 % | 152,712 | 5.1 % | 163,263 | 5.0 % | 173,582 | 5.3 % | 193,645 | 6.0 % |
| Lower than B | 9,234 | 0.3 % | 10,332 | 0.3 % | 13,606 | 0.4 % | 20,223 | 0.6 % | 21,248 | 0.7 % |
| Not rated | 69,290 | 2.4 % | 98,196 | 3.3 % | 94,377 | 2.9 % | 106,359 | 3.2 % | 138,165 | 4.2 % |
| Total fixed maturities, at fair value | <u>\$ 2,897,089</u> | <u>100.0 %</u> | <u>\$ 2,976,046</u> | <u>100.0 %</u> | <u>\$ 3,296,021</u> | <u>100.0 %</u> | <u>\$ 3,295,930</u> | <u>100.0 %</u> | <u>\$ 3,252,381</u> | <u>100.0 %</u> |

(1) Includes sovereign securities, supranational securities and other.

(2) For individual fixed maturities, S&P ratings are used. In the absence of an S&P rating, ratings from Moody's are used, followed by ratings from Fitch Ratings.

The following table summarizes the Company's top ten exposures to fixed income corporate issuers by fair value at September 30, 2015, excluding government-backed securities, covered bonds and amounts included in the 'other' segment:

| (U.S. Dollars in thousands) | Fair Value | % of Asset Class | % of Investable Assets | Credit Quality (1) |
|---------------------------------------|-------------------|------------------|------------------------|--------------------|
| Issuer: | | | | |
| Exxon Mobil Corp. | \$ 75,178 | 2.6% | 0.5% | AAA/Aaa |
| Apple Inc. | 74,000 | 2.6% | 0.5% | AA+/Aa1 |
| General Electric Co. | 71,244 | 2.5% | 0.5% | AA+/A1 |
| International Business Machines Corp. | 67,295 | 2.3% | 0.5% | AA-/Aa3 |
| Microsoft Corporation | 61,809 | 2.1% | 0.4% | AAA/Aaa |
| Chevron Corp. | 52,266 | 1.8% | 0.4% | AA/Aa1 |
| Oracle Corporation | 50,791 | 1.8% | 0.3% | AA-/A1 |
| Daimler AG | 47,301 | 1.6% | 0.3% | A-/A3 |
| Toyota Motor Corporation | 46,066 | 1.6% | 0.3% | AA-/Aa3 |
| Wells Fargo & Company | 46,011 | 1.6% | 0.3% | A+/A2 |
| Total | <u>\$ 591,961</u> | <u>20.4%</u> | <u>4.0%</u> | |

(1) Average credit ratings assigned by S&P and Moody's, respectively.

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Structured Securities

The following table provides information on the Company's mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) at September 30, 2015, excluding amounts guaranteed by U.S. government agencies and amounts included in the 'other' segment:

(U.S. Dollars in thousands)

| | Issuance Year | Amortized Cost | Average Credit Quality | Estimated Fair Value | | | Additional Statistics: | Non-Agency MBS | Non-Agency CMBS (1) |
|-------------------------|---------------|-------------------|------------------------|----------------------|---------------------|------------------------|----------------------------------|----------------|---------------------|
| | | | | Total | % of Amortized Cost | % of Investable Assets | | | |
| Non-agency MBS: | 2003-2008 | \$ 112,836 | CC | \$ 121,005 | 107.2% | 0.8% | Wtd. average loan age (months) | 83 | 23 |
| | 2009 | 20,983 | AAA | 20,785 | 99.1% | 0.1% | Wtd. average life (months) (2) | 43 | 57 |
| | 2010 | 15,300 | AA | 14,985 | 97.9% | 0.1% | Wtd. average loan-to-value % (3) | 63.1 % | 54.0 % |
| | 2013 | 26,811 | AAA | 27,016 | 100.8% | 0.2% | Total delinquencies (4) | 9.0 % | 0.4 % |
| | 2014 | 42,516 | AA | 42,483 | 99.9% | 0.3% | Current credit support % (5) | 11.8 % | 40.3 % |
| | 2015 | 49,109 | AA+ | 48,967 | 99.7% | 0.3% | | | |
| Total non-agency MBS | | <u>\$ 267,555</u> | BBB- | <u>\$ 275,241</u> | <u>102.9%</u> | <u>1.9%</u> | | | |
| Non-agency CMBS: | 2002-2008 | \$ 31,806 | BBB+ | \$ 32,333 | 101.7% | 0.2% | | | |
| | 2009 | 362 | BBB+ | 365 | 100.8% | —% | | | |
| | 2010 | 9,923 | AAA | 10,151 | 102.3% | 0.1% | | | |
| | 2011 | 29,406 | AAA | 29,437 | 100.1% | 0.2% | | | |
| | 2012 | 64,819 | AAA | 66,268 | 102.2% | 0.4% | | | |
| | 2013 | 115,569 | AA+ | 118,990 | 103.0% | 0.8% | | | |
| | 2014 | 245,542 | AAA | 247,996 | 101.0% | 1.7% | | | |
| | 2015 | 241,392 | AAA | 240,777 | 99.7% | 1.6% | | | |
| Total non-agency CMBS | | <u>\$ 738,819</u> | AA+ | <u>\$ 746,317</u> | <u>101.0%</u> | <u>5.1%</u> | | | |

- (1) Loans defeased with government/agency obligations represented were not material to the collateral underlying the Company's CMBS holdings.
- (2) The weighted average life for MBS is based on the interest rates in effect at September 30, 2015. The weighted average life for CMBS reflects the average life of the collateral underlying the Company's CMBS holdings.
- (3) The range of loan-to-values on MBS is 38% to 100%, while the range of loan-to-values on CMBS is 25% to 199%.
- (4) Total delinquencies includes 60 days and over.
- (5) Current credit support % represents the % for a collateralized mortgage obligation (CMO) or CMBS class/tranche from other subordinate classes in the same CMO or CMBS deal.

The following table provides information on the Company's asset-backed securities (ABS) at September 30, 2015, excluding amounts included in the 'other' segment:

(U.S. Dollars in thousands)

| Sector: | Amortized Cost | Average Credit Quality | Weighted Average Credit Support | Estimated Fair Value | | |
|---------------|---------------------|------------------------|---------------------------------|----------------------|---------------------|------------------------|
| | | | | Total | % of Amortized Cost | % of Investable Assets |
| Credit cards | \$ 486,897 | AAA | 16% | \$ 489,646 | 100.6% | 3.3% |
| Autos | 340,844 | AAA | 25% | 342,869 | 100.6% | 2.3% |
| Loans | 275,215 | AA- | 11% | 274,075 | 99.6% | 1.9% |
| Equipment | 154,656 | AA- | 10% | 154,026 | 99.6% | 1.0% |
| Other (1) | 110,755 | A+ | 16% | 111,934 | 101.1% | 0.8% |
| Total ABS (2) | <u>\$ 1,368,367</u> | AA+ | | <u>\$ 1,372,550</u> | <u>100.3%</u> | <u>9.3%</u> |

- (1) Including rate reduction bonds, commodities, home equity, U.K. securitized and other.
- (2) The effective duration of the total ABS was 1.7 years at September 30, 2015. The Company's investment portfolio included sub-prime securities with a par value of \$43.7 million and estimated fair value of \$35.0 million and an average credit quality of "CCC-/Caa3" from S&P/Moody's at September 30, 2015. Such amounts were primarily in the home equity sector of ABS with the balance in other ABS, MBS and CMBS sectors. In addition, the portfolio of collateral backing the Company's securities lending program contains sub-prime securities with an estimated fair value of \$5.4 million and an average credit quality of "CCC/Ca" from S&P/Moody's at September 30, 2015.

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Bank Loan Investments

The Company's investments in bank loans are included in the following categories at September 30, 2015, excluding amounts included in the 'other' segment:

(U.S. Dollars in thousands)

| | Fair Value | % of Asset Class | % of Investable Assets |
|--|-------------------|---------------------|---------------------------|
| Composition: | | | |
| Investment funds accounted for using the equity method | \$ 3,624 | 1.1% | —% |
| Term loan investments (1) | 316,564 | 98.9% | 2.1% |
| Total | <u>\$ 320,188</u> | <u>100.0%</u> | <u>2.2%</u> |
| Currency: | | | |
| U.S.-denominated | \$ 213,689 | 66.7% | 1.5% |
| Euro-denominated | 106,499 | 33.3% | 0.7% |
| Total | <u>\$ 320,188</u> | <u>100.0%</u> | <u>2.2%</u> |
| Sector: | | | |
| Consumer non-cyclical | \$ 79,204 | 24.7% | 0.5% |
| Consumer cyclical | 65,228 | 20.4% | 0.4% |
| Industrials | 58,445 | 18.3% | 0.4% |
| Media | 35,517 | 11.1% | 0.2% |
| Basic materials | 35,021 | 10.9% | 0.2% |
| Utilities | 24,418 | 7.6% | 0.2% |
| All other | 22,355 | 7.0% | 0.2% |
| Total | <u>\$ 320,188</u> | <u>100.0%</u> | <u>2.2%</u> |
| Weighted average rating factor (Moody's) | B2 | | |

(1) Included in "investments accounted for using the fair value option" on the Company's balance sheet.

Arch Capital Group Ltd. and Subsidiaries
Investment Information — Eurozone Investments

The fair value of the Company's Eurozone investments are as follows at September 30, 2015, excluding amounts included in the 'other' segment:

(U.S. Dollars in thousands)

| Country (1): | Sovereign (2) | Financial Corporates | Other Corporates | Bank Loans (3) | Equities and Other | Total |
|---------------------|----------------------|-----------------------------|-------------------------|-----------------------|---------------------------|-------------------|
| Netherlands | \$ 175,691 | \$ 8,676 | \$ 45,445 | \$ 13,398 | \$ — | \$ 243,210 |
| Germany | 104,229 | — | 23,489 | 26,298 | — | 154,016 |
| Luxembourg | — | — | 25,824 | 7,219 | — | 33,043 |
| Supranational (4) | 28,541 | — | — | — | — | 28,541 |
| France | 1,997 | 1,695 | 5,012 | 4,223 | 3,129 | 16,056 |
| Belgium | 6,376 | — | — | — | — | 6,376 |
| Ireland | — | — | 2,925 | 117 | — | 3,042 |
| Slovenia | 1,746 | — | — | — | — | 1,746 |
| Austria | 903 | — | — | — | — | 903 |
| Italy | — | — | 264 | 460 | — | 724 |
| Spain | — | — | 303 | — | — | 303 |
| Greece | 166 | — | — | — | — | 166 |
| Total | <u>\$ 319,649</u> | <u>\$ 10,371</u> | <u>\$ 103,262</u> | <u>\$ 51,715</u> | <u>\$ 3,129</u> | <u>\$ 488,126</u> |

- (1) The country allocations set forth in the table are based on various assumptions made by the Company in assessing the country in which the underlying credit risk resides, including a review of the jurisdiction of organization, business operations and other factors. Based on such analysis, the Company does not believe that it has any other Eurozone investments at September 30, 2015.
- (2) Sovereign includes securities issued and/or guaranteed by Eurozone governments.
- (3) Included in "term loan investments" in the Bank Loan Investments table.
- (4) Includes World Bank, European Investment Bank, International Finance Corp. and European Bank for Reconstruction and Development.

Arch Capital Group Ltd. and Subsidiaries
Comments on Regulation G

Throughout this financial supplement, the Company presents its operations in the way it believes will be the most meaningful and useful to investors, analysts, rating agencies and others who use the Company's financial information in evaluating the performance of the Company. This presentation includes the use of after-tax operating income available to Arch common shareholders, which is defined as net income available to Arch common shareholders, excluding net realized gains or losses, net impairment losses recognized in earnings, equity in net income or loss of investment funds accounted for using the equity method and net foreign exchange gains or losses, net of income taxes. The presentation of after-tax operating income available to Arch common shareholders is a "non-GAAP financial measure" as defined in Regulation G. The reconciliation of such measure to net income available to Arch common shareholders (the most directly comparable GAAP financial measure) in accordance with Regulation G is included on the following page.

The Company believes that net realized gains or losses, net impairment losses recognized in earnings, equity in net income or loss of investment funds accounted for using the equity method and net foreign exchange gains or losses in any particular period are not indicative of the performance of, or trends in, the Company's business performance. Although net realized gains or losses, net impairment losses recognized in earnings, equity in net income or loss of investment funds accounted for using the equity method and net foreign exchange gains or losses are an integral part of the Company's operations, the decision to realize investment gains or losses, the recognition of the change in the carrying value of investments accounted for using the fair value option in net realized gains or losses, the recognition of net impairment losses recognized in earnings, the recognition of equity in net income or loss of investment funds accounted for using the equity method and the recognition of foreign exchange gains or losses are independent of the insurance underwriting process and result, in large part, from general economic and financial market conditions. Furthermore, certain users of the Company's financial information believe that, for many companies, the timing of the realization of investment gains or losses is largely opportunistic. In addition, net impairment losses recognized in earnings represent other-than-temporary declines in expected recovery values on securities without actual realization. The use of the equity method on certain of the Company's investments in certain funds that invest in fixed maturity securities is driven by the ownership structure of such funds (either limited partnerships or limited liability companies). In applying the equity method, these investments are initially recorded at cost and are subsequently adjusted based on the Company's proportionate share of the net income or loss of the funds (which include changes in the market value of the underlying securities in the funds). This method of accounting is different from the way the Company accounts for its other fixed maturity securities and the timing of the recognition of equity in net income or loss of investment funds accounted for using the equity method may differ from gains or losses in the future upon sale or maturity of such investments. Due to these reasons, the Company excludes net realized gains or losses, net impairment losses recognized in earnings, equity in net income or loss of investment funds accounted for using the equity method and net foreign exchange gains or losses from the calculation of after-tax operating income available to Arch common shareholders.

The Company believes that showing net income available to Arch common shareholders exclusive of the items referred to above reflects the underlying fundamentals of the Company's business since the Company evaluates the performance of and manages its business to produce an underwriting profit. In addition to presenting net income available to Arch common shareholders, the Company believes that this presentation enables investors and other users of the Company's financial information to analyze the Company's performance in a manner similar to how the Company's management analyzes performance. The Company also believes that this measure follows industry practice and, therefore, allows the users of the Company's financial information to compare the Company's performance with its industry peer group. The Company believes that the equity analysts and certain rating agencies which follow the Company and the insurance industry as a whole generally exclude these items from their analyses for the same reasons.

In addition, the Company's segment information includes the use of a combined ratio excluding catastrophic activity and prior year development for the insurance segment and reinsurance segment and a combined ratio excluding prior year development for the mortgage segment. These ratios are "non-GAAP financial measures" as defined in Regulation G. The reconciliation of such measures to the combined ratio (the most directly comparable GAAP financial measure) in accordance with Regulation G are shown on the individual segment pages. The Company's management utilizes the adjusted combined ratio excluding current accident year catastrophic events and favorable or adverse development in prior year loss reserves in its analysis of the core underwriting performance of each of its underwriting segments.

Arch Capital Group Ltd. and Subsidiaries
Operating Income Reconciliation and Annualized Operating Return on Average Common Equity

The following table provides a reconciliation of after-tax operating income (loss) available to Arch common shareholders to net income available to Arch common shareholders along with related per common share results:

(U.S. Dollars in thousands, except share data)

| | Three Months Ended | | | | Nine Months Ended | | |
|--|-----------------------|-------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| After-tax operating income available to Arch common shareholders | \$ 125,798 | \$ 145,956 | \$ 149,846 | \$ 150,184 | \$ 142,055 | \$ 421,600 | \$ 467,128 |
| Net realized gains (losses), net of tax | (58,048) | (28,074) | 61,934 | 26,847 | 27,476 | (24,188) | 96,016 |
| Net impairment losses recognized in earnings, net of tax | (5,868) | (1,113) | (5,799) | (3,837) | (8,593) | (12,780) | (26,313) |
| Equity in net income of investment funds accounted for using the equity method, net of tax | (2,373) | 16,113 | 5,532 | 2,252 | 4,765 | 19,272 | 16,983 |
| Net foreign exchange gains (losses), net of tax | 15,040 | (22,577) | 66,339 | 34,233 | 57,488 | 58,802 | 48,924 |
| Net income available to Arch common shareholders | <u>\$ 74,549</u> | <u>\$ 110,305</u> | <u>\$ 277,852</u> | <u>\$ 209,679</u> | <u>\$ 223,191</u> | <u>\$ 462,706</u> | <u>\$ 602,738</u> |
| Diluted per common share results: | | | | | | | |
| After-tax operating income available to Arch common shareholders | \$ 1.01 | \$ 1.16 | \$ 1.17 | \$ 1.15 | \$ 1.05 | \$ 3.34 | \$ 3.43 |
| Net realized gains (losses), net of tax | (0.46) | (0.22) | 0.48 | 0.21 | 0.20 | (0.19) | 0.70 |
| Net impairment losses recognized in earnings, net of tax | (0.05) | (0.01) | (0.05) | (0.03) | (0.06) | (0.10) | (0.19) |
| Equity in net income of investment funds accounted for using the equity method, net of tax | (0.02) | 0.13 | 0.04 | 0.01 | 0.03 | 0.15 | 0.12 |
| Net foreign exchange gains (losses), net of tax | 0.12 | (0.18) | 0.52 | 0.26 | 0.42 | 0.46 | 0.36 |
| Net income available to Arch common shareholders | <u>\$ 0.60</u> | <u>\$ 0.88</u> | <u>\$ 2.16</u> | <u>\$ 1.60</u> | <u>\$ 1.64</u> | <u>\$ 3.66</u> | <u>\$ 4.42</u> |
| Weighted average common shares and common share equivalents outstanding — diluted | 125,011,773 | 125,885,420 | 128,451,054 | 130,855,218 | 135,876,605 | 126,354,759 | 136,354,172 |

The following table provides the calculation of annualized operating return on average common equity:

(U.S. Dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | | |
|---|-----------------------|---------------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| After-tax operating income available to Arch common shareholders | \$ 125,798 | \$ 145,956 | \$ 149,846 | \$ 150,184 | \$ 142,055 | \$ 421,600 | \$ 467,128 |
| Annualized after-tax operating income available to Arch common shareholders (a) | \$ 503,192 | \$ 583,824 | \$ 599,384 | \$ 600,736 | \$ 568,220 | \$ 562,133 | \$ 622,837 |
| Beginning common shareholders' equity | \$ 5,812,515 | \$ 5,963,702 | \$ 5,805,053 | \$ 5,756,046 | \$ 5,904,399 | \$ 5,805,053 | \$ 5,322,496 |
| Ending common shareholders' equity | 5,837,815 | 5,812,515 | 5,963,702 | 5,805,053 | 5,756,046 | 5,837,815 | 5,756,046 |
| Average common shareholders' equity (b) | <u>\$ 5,825,165</u> | <u>\$ 5,888,109</u> | <u>\$ 5,884,378</u> | <u>\$ 5,780,550</u> | <u>\$ 5,830,223</u> | <u>\$ 5,821,434</u> | <u>\$ 5,539,271</u> |
| Annualized operating return on average common equity (a)/(b) | 8.6% | 9.9% | 10.2% | 10.4% | 9.7% | 9.7% | 11.2% |

Arch Capital Group Ltd. and Subsidiaries
Operating Income and Effective Tax Rate Calculations

The following table provides a reconciliation of the components of after-tax operating income available to Arch common shareholders and the effective tax rate on pre-tax operating income available to Arch common shareholders:

(U.S. Dollars in thousands)

| | Three Months Ended | | | | | Nine Months Ended | |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Arch Operating Income Components (excludes 'Other' segment): | | | | | | | |
| Income before income taxes | \$ 92,293 | \$ 121,913 | \$ 293,474 | \$ 222,280 | \$ 236,400 | \$ 507,680 | \$ 638,508 |
| Less: | | | | | | | |
| Net realized gains (losses) | (53,480) | (26,860) | 65,509 | 31,310 | 31,411 | (14,831) | 102,074 |
| Net impairment losses recognized in earnings | (5,868) | (1,113) | (5,799) | (3,837) | (8,593) | (12,780) | (26,313) |
| Equity in net income (loss) of investment funds accounted for using the equity method | (2,118) | 16,167 | 5,889 | 2,424 | 4,966 | 19,938 | 17,459 |
| Net foreign exchange gains (losses) | 16,056 | (22,571) | 66,853 | 34,467 | 57,611 | 60,338 | 48,191 |
| Pre-tax operating income | 137,703 | 156,290 | 161,022 | 157,916 | 151,005 | 455,015 | 497,097 |
| Arch share of 'Other' segment operating income (loss) (1) | 1,588 | 1,305 | 612 | 452 | 317 | 3,505 | (661) |
| Pre-tax operating income available to Arch (b) | 139,291 | 157,595 | 161,634 | 158,368 | 151,322 | 458,520 | 496,436 |
| Income tax expense (a) | (8,009) | (6,154) | (6,304) | (2,699) | (3,783) | (20,467) | (12,855) |
| After-tax operating income available to Arch | 131,282 | 151,441 | 155,330 | 155,669 | 147,539 | 438,053 | 483,581 |
| Preferred dividends | (5,484) | (5,485) | (5,484) | (5,485) | (5,484) | (16,453) | (16,453) |
| After-tax operating income available to Arch common shareholders | \$ 125,798 | \$ 145,956 | \$ 149,846 | \$ 150,184 | \$ 142,055 | \$ 421,600 | \$ 467,128 |
| Effective tax rate on pre-tax operating income available to Arch (a)/(b) | 5.7% | 3.9% | 3.9% | 1.7% | 2.5% | 4.5% | 2.6% |
| Balances in 'Other' segment: | | | | | | | |
| Underwriting income (loss) | \$ 1,309 | \$ (3,229) | \$ 1,768 | \$ (836) | \$ (80) | \$ (152) | \$ (2,244) |
| Net investment income | 18,982 | 19,792 | 8,706 | 9,850 | 7,866 | 47,480 | 8,399 |
| Other expenses | — | — | — | — | — | — | (2,329) |
| Interest expense | (1,286) | — | — | — | — | (1,286) | — |
| Preferred dividends | (4,588) | (4,743) | (4,908) | (4,910) | (4,909) | (14,239) | (9,818) |
| Pre-tax operating income (loss) available to common shareholders | 14,417 | 11,820 | 5,566 | 4,104 | 2,877 | 31,803 | (5,992) |
| Arch ownership | 11% | 11% | 11% | 11% | 11% | 11% | 11% |
| Arch share of 'Other' segment operating income (loss) (1) | \$ 1,588 | \$ 1,305 | \$ 612 | \$ 452 | \$ 317 | \$ 3,505 | \$ (661) |

(1) Excludes amounts attributable to net realized gains or losses and net foreign exchange gains or losses in the 'other' segment (see 'Segment Information').

Arch Capital Group Ltd. and Subsidiaries
Capital Structure and Share Repurchase Activity

The following table provides an analysis of the Company's capital structure:

(U.S. Dollars in thousands, except share data)

| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|---|-----------------------|---------------------|---------------------|----------------------|-----------------------|
| Debt: | | | | | |
| Senior notes, due May 1, 2034 (\$300,000 principal, 7.35%) (1) | \$ 296,854 | \$ 296,834 | \$ 296,815 | \$ 296,796 | \$ 296,777 |
| Senior notes, due November 1, 2043 (\$500,000 principal, 5.144%) (2) | 494,410 | 494,388 | 494,366 | 494,345 | 494,324 |
| Revolving credit agreement borrowings, due June 30, 2019 (variable) (3) | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Total debt | \$ 891,264 | \$ 891,222 | \$ 891,181 | \$ 891,141 | \$ 891,101 |
| Shareholders' equity available to Arch: | | | | | |
| Non-cumulative preferred shares (6.75%) | \$ 325,000 | \$ 325,000 | \$ 325,000 | \$ 325,000 | \$ 325,000 |
| Common shareholders' equity (a) | 5,837,815 | 5,812,515 | 5,963,702 | 5,805,053 | 5,756,046 |
| Total shareholders' equity available to Arch | \$ 6,162,815 | \$ 6,137,515 | \$ 6,288,702 | \$ 6,130,053 | \$ 6,081,046 |
| Total capital available to Arch | \$ 7,054,079 | \$ 7,028,737 | \$ 7,179,883 | \$ 7,021,194 | \$ 6,972,147 |
| Common shares outstanding, net of treasury shares (b) | 122,438,554 | 122,403,909 | 124,760,841 | 127,367,934 | 130,700,619 |
| Book value per common share (4) (a)/(b) | \$ 47.68 | \$ 47.49 | \$ 47.80 | \$ 45.58 | \$ 44.04 |
| Leverage ratios: | | | | | |
| Senior notes/total capital | 11.2% | 11.3% | 11.0% | 11.3% | 11.3% |
| Revolving credit agreement borrowings/total capital | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |
| Debt/total capital | 12.6% | 12.7% | 12.4% | 12.7% | 12.8% |
| Preferred/total capital | 4.6% | 4.6% | 4.5% | 4.6% | 4.7% |
| Debt and preferred/total capital | 17.2% | 17.3% | 16.9% | 17.3% | 17.4% |

- (1) Issued by Arch Capital Group Ltd. ("ACGL"). (2) Issued by Arch Capital Group (U.S.) Inc., a wholly owned subsidiary of ACGL, and fully and unconditionally guaranteed by ACGL.
(3) Excludes borrowings in the 'other' segment. (4) Excludes the effects of stock options and restricted stock units outstanding.

The following table provides an analysis of the Company's share repurchase program:

(U.S. Dollars in thousands except share data)

| | Three Months Ended | | | | | Cumulative |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|-----------------------|
| | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 |
| Effect of share repurchases: | | | | | | |
| Aggregate cost of shares repurchased | \$ 3,506 | \$ 198,979 | \$ 162,898 | \$ 202,218 | \$ 251,919 | \$ 3,607,405 |
| Shares repurchased | 52,402 | 3,165,975 | 2,731,248 | 3,593,114 | 4,593,726 | 124,083,707 |
| Average price per share repurchased | \$ 66.91 | \$ 62.85 | \$ 59.64 | \$ 56.28 | \$ 54.84 | \$ 29.07 |
| Average book value per common share (1) | \$ 47.59 | \$ 47.65 | \$ 46.69 | \$ 44.81 | \$ 43.89 | |
| Average repurchase price-to-book multiple | 1.41x | 1.32x | 1.28x | 1.26x | 1.25x | |
| Remaining share repurchase authorization (2) | \$ 521,757 | | | | | |

- (1) Equals average of beginning and ending book value per common share for each period presented.
(2) Repurchases under the share repurchase authorization may be effected from time to time in open market or privately negotiated transactions through December 2016. The timing and amount of the repurchase transactions under this program will depend on a variety of factors, including market conditions and corporate and regulatory considerations.