



# J. P. Morgan 2017 Insurance Forum

March 23, 2017

**Mortgage  
Segment  
Review**

# Informational Statements



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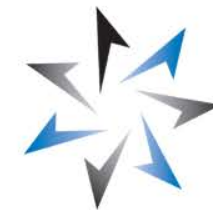
The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. All subsequent written and oral forward looking statements attributable to us or persons acting on our behalf are expressly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

Some non-GAAP measures of financial performance also may be referred to during this presentation. The reconciliation of these measures to GAAP and definition of operating income can be found in Arch's filings with the SEC, and are also available on Arch's website. Arch posts additional financial information and presentations to its website, including information with respect to its subsidiaries, and investors and other recipients of this information are encouraged to check the website.




# Business Overview

# Acquisition of United Guaranty Corporation



## *UGC Acquisition - Consolidates Arch as a Leading Specialty Powerhouse*

 Anchors third leg of Arch's business by transforming Arch MI into the foremost private mortgage insurer with a diverse customer base and national presence

 Further builds Arch's cycle management capabilities by deploying capital and dedicating intellectual resources to business segments with the best relative returns

 Positions Arch MI as the clear industry leader in innovation, advanced credit analytics and financial strength.

 Creates best-in-class capabilities for selecting, pricing, managing, and transferring mortgage credit risk.

# Acquisition of UGC Creates Frontrunner in the U.S.



## Leadership position in the highly profitable U.S. Mortgage Insurance sector

- Combined global insurance in-force of \$316 billion and \$1.4 billion of gross premiums written



## Financial strength provides clear competitive advantage

- Arch's ratings and capitalization are superior to any other competitor in the MI space



## Complementary relationships with customers and regulators

- Well-diversified customer base and the largest national sales force

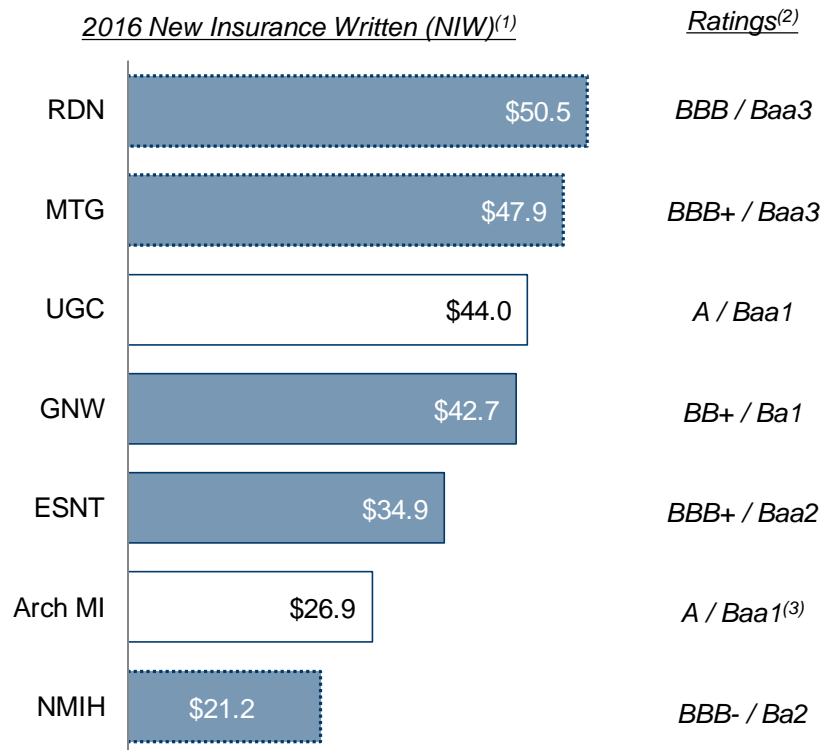


## Enhanced scale

- Drives cost efficiencies
- Innovation in mortgage products (capital market solutions, risk sharing transactions, credit analytics)

## U.S. Private Mortgage Insurance Landscape

(\$ in billions)



(1) Rankings based on NIW for 2016 for MTG, RDN, GNW, ESNT, NMIH, UGC, and Arch MI.

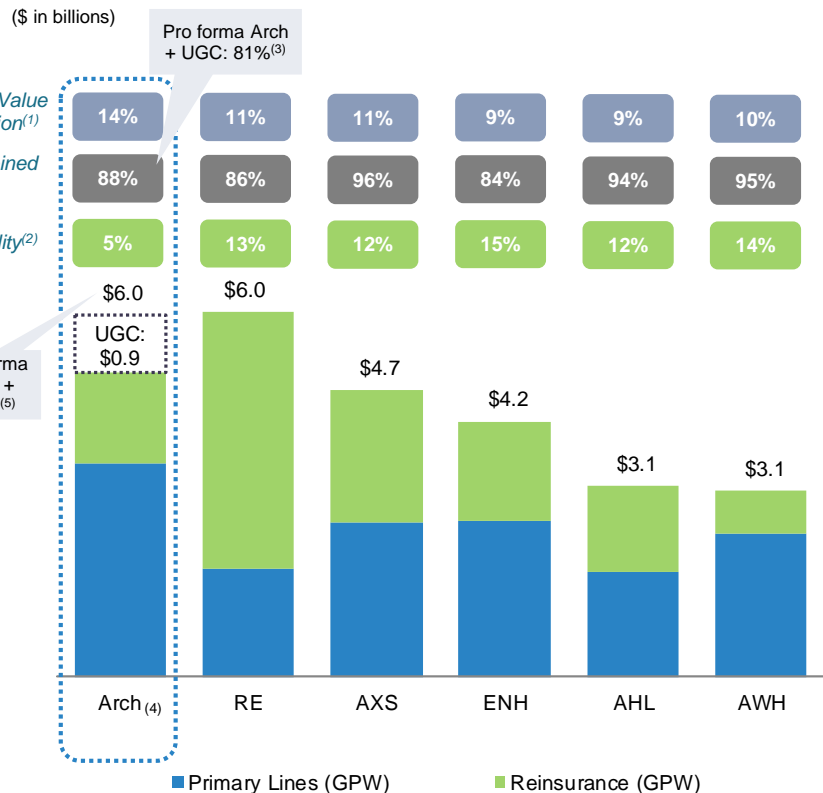
(2) Represents financial strength ratings (S&P / Moody's).

(3) Represents financial strength ratings for Arch MI. Arch Capital FSR ratings of A+ and A1 from S&P and Moody's, respectively.

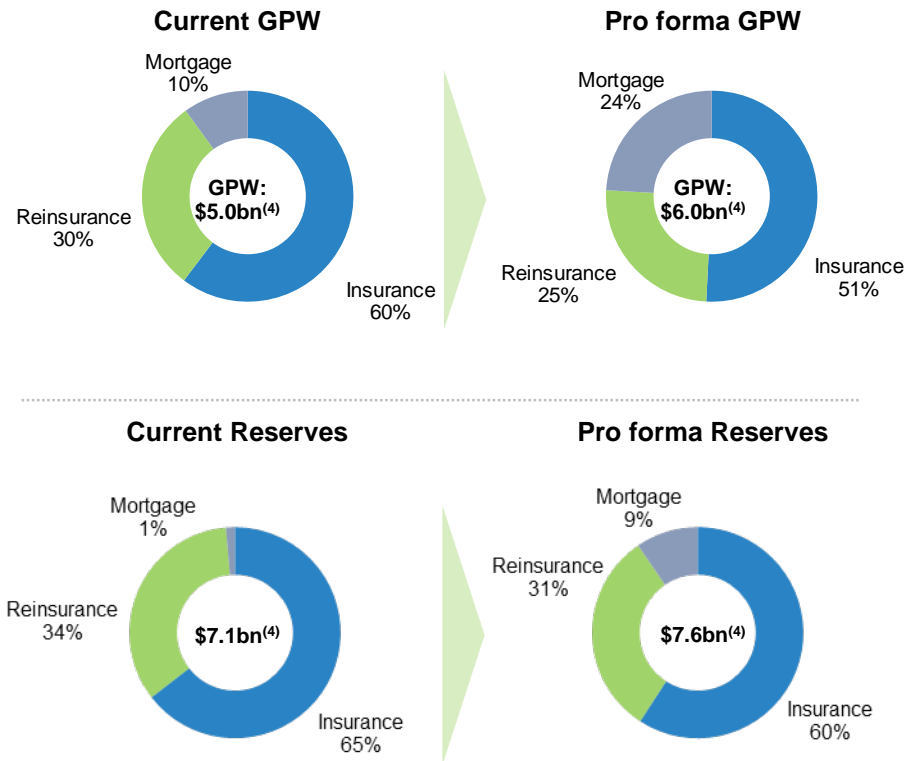
# Enhanced Scale and Diversity Differentiates Arch as a Specialty Powerhouse



## Specialty Powerhouse

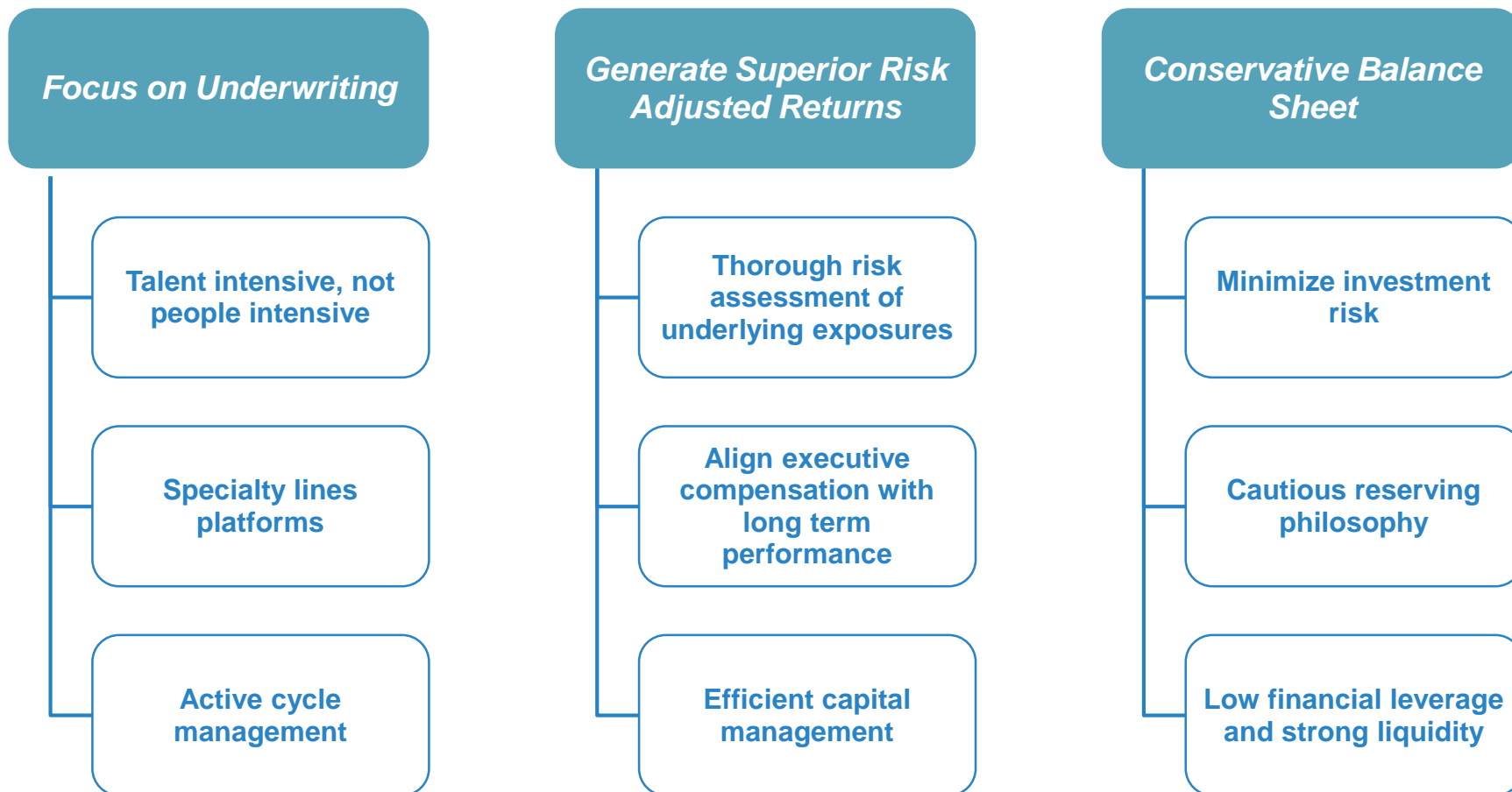


## Greater Diversification of Business



Source: Company filings, SNL Financial.  
 Note: Metrics as of LTM 12/31/16 unless otherwise noted.  
 (1) Represents tangible book value per share plus dividend 12-year CAGR as of 12/31/2015.  
 (2) Represents combined ratio volatility for 12 year period ending 12/31/2015, defined as standard deviation divided by the mean for the given time period.  
 (3) Pro forma combined ratio for an Arch and UGC combination. Based on LTM 12/31/16 financials for Arch and for UGC.  
 (4) Excludes "Other" segment (i.e. Watford Re).  
 (5) Assumes continuation of historical practices at both Arch and UGC.

# Strategic Overview





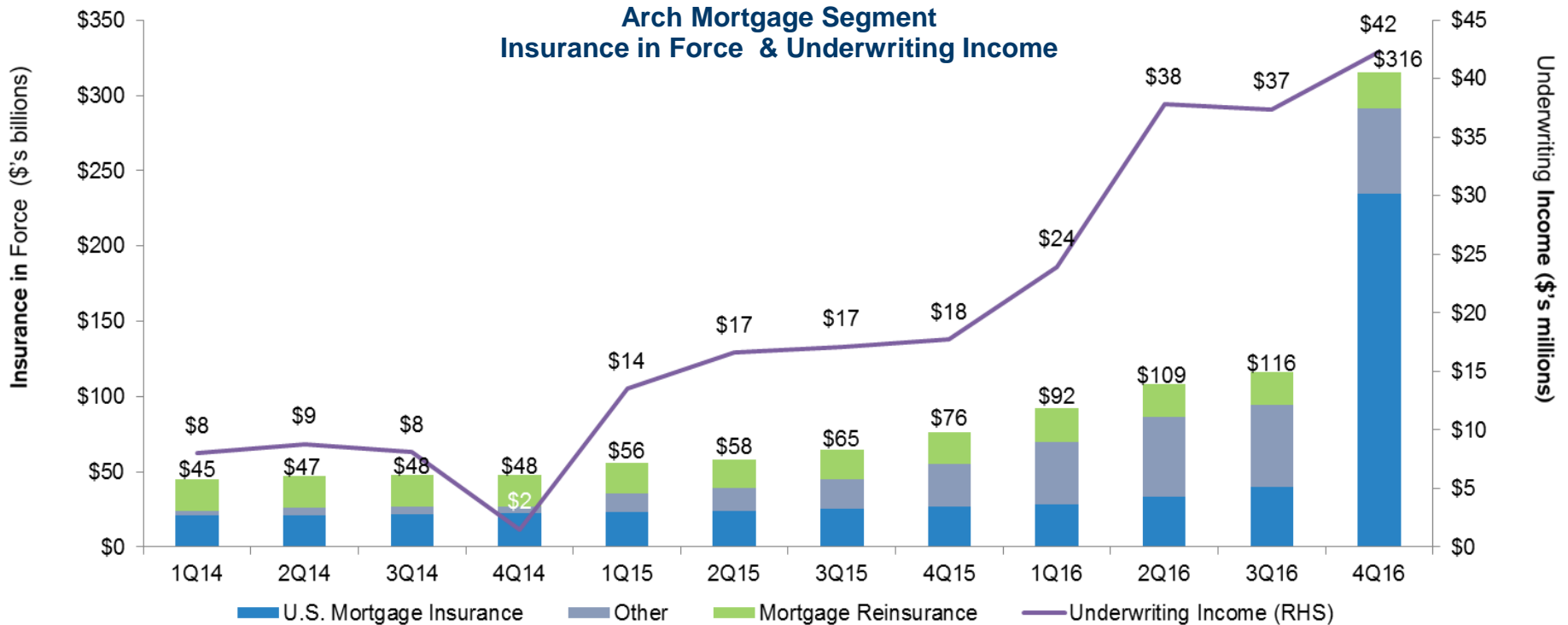
# Mortgage Segment



# Building the Mortgage Portfolio



- Arch is building a portfolio of mortgage business leading to increasing underwriting income
- Primary U.S. MI business builds with new insurance writings and provides a recurring, multi-year revenue stream
- Material embedded value in current mortgage portfolio, as significant underwriting income is yet to emerge on bound contracts



# Driving Innovation



## Risk-Based Pricing

- Arch MI RateStar introduced the industry's most sophisticated pricing engine utilizing multiple risk attributes to calculate precise base rates & surcharges
- Risk based pricing permits active risk selection and portfolio management
- Pricing changes are easier as underlying economic or borrower conditions change

## GSE Credit Risk Transfer

- Arch has been a key innovator & participant in the back-end CRT market with both GSEs.
- In 2016, Arch continues innovative work on development of front-end CRT market
- Open dialogue with the GSEs around additional forms of risk-transfer arrangements.

## Mortgage Analytics & Underwriting

- Arch has invested in building a strong mortgage analytics team
- Cross company utilization of mortgage underwriting capability through Arch companies ( Arch MI, Arch Reinsurance Ltd., Arch Reinsurance Co.) and Watford Re

## Mortgage Risk Transfer

- Ability to actively manage mortgage portfolio through risk transfer to multiple parties
- For example, Arch's Australian exposure was managed via QS reinsurance to multiple reinsurers

## Policy Terms & Conditions

- Development and introduction of innovative policy terms and conditions to meet unique customer needs, for example:
  - Arch Mortgage Guaranty's true 'day-1' rescission relief
  - Arch MI Australia's master policy addresses underwriting defects in first 12 months



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