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Financial Supplement

Financial Information
as of June 30, 2012

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.bm for further information describing Arch Capital Group Ltd. The adoption of new accounting guidance concerning the accounting for costs associated with acquiring or renewing insurance contracts was adopted retrospectively and has been applied to all prior period financial information in this financial supplement.

Arch Capital Group Ltd. and Subsidiaries

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Arch Capital Group Ltd. and Subsidiaries

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 our 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 our 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 our ability to maintain and improve our ratings; investment performance; the loss of key personnel; the adequacy of our 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; our 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 us of reinsurance to manage our gross and net exposures; the failure of others to meet their obligations to us; and other factors identified in our 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 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.

Arch Capital Group Ltd. and Subsidiaries
Financial Highlights
(U.S. dollars in thousands, except share data)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|--------------------------------|---------------|---------------------------|------------------------------|---------------|---------------------------|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Gross premiums written..... | \$1,051,813 | \$911,939 | 15.3% | \$2,118,469 | \$1,876,505 | 12.9% |
| Net premiums written | \$820,233 | \$706,543 | 16.1% | \$1,683,844 | \$1,470,821 | 14.5% |
| Net premiums earned | \$726,656 | \$642,879 | 13.0% | \$1,406,968 | \$1,276,574 | 10.2% |
| Underwriting income (loss)..... | \$93,723 | (\$43) | N/M | \$160,916 | (\$64,023) | N/M |
| Net investment income..... | \$73,608 | \$86,671 | (15.1%) | \$147,905 | \$174,978 | (15.5%) |
| <i>Per diluted share</i> | \$0.53 | \$0.63 | (15.9%) | \$1.07 | \$1.26 | (15.1%) |
| Net income available to common shareholders..... | \$212,619 | \$90,142 | 135.9% | \$370,414 | \$109,154 | 239.3% |
| <i>Per diluted share</i> | \$1.54 | \$0.65 | 136.9% | \$2.68 | \$0.78 | 243.6% |
| After-tax operating income available to common shareholders (1)..... | \$141,400 | \$59,739 | 136.7% | \$255,060 | \$67,315 | 278.9% |
| <i>Per diluted share</i> | \$1.02 | \$0.43 | 137.2% | \$1.85 | \$0.48 | 285.4% |
| Comprehensive income..... | \$178,897 | \$134,782 | 32.7% | \$423,698 | \$181,157 | 133.9% |
| Cash flow from operations..... | \$252,447 | \$221,967 | 13.7% | \$397,268 | \$446,547 | (11.0%) |
| Diluted weighted average common shares and common share equivalents outstanding..... | 138,211,736 | 137,975,599 | 0.2% | 138,017,490 | 139,234,931 | (0.9%) |
| | | | % Point Change | | | % Point Change |
| Underwriting ratios: | | | | | | |
| Loss ratio | 55.0% | 67.1% | (12.1) | 56.5% | 72.5% | (16.0) |
| Acquisition expense ratio..... | 17.6% | 17.1% | 0.5 | 17.5% | 17.1% | 0.4 |
| Other operating expense ratio | 14.6% | 15.8% | (1.2) | 14.6% | 15.5% | (0.9) |
| Combined ratio | <u>87.2%</u> | <u>100.0%</u> | <u>(12.8)</u> | <u>88.6%</u> | <u>105.1%</u> | <u>(16.5)</u> |
| Financial measures: | | | | | | |
| Growth in book value per common share..... | 3.4% | 2.2% | 1.2 | 8.5% | 3.3% | 5.2 |
| Annualized operating return on average common equity..... | 12.3% | 5.9% | 6.4 | 11.4% | 3.3% | 8.1 |
| Total return on investments (2) | | | | | | |
| Including effects of foreign exchange..... | 0.63% | 1.65% | -102 bps | 2.53% | 3.17% | -64 bps |
| Excluding effects of foreign exchange..... | 1.04% | 1.54% | -50 bps | 2.66% | 2.69% | -3 bps |

(1) See page 19, 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 | | | | | | | | Six Months Ended | | |
|---|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| Gross premiums written..... | \$1,051,813 | \$1,066,656 | \$699,662 | \$860,289 | \$911,939 | \$964,566 | \$664,212 | \$831,788 | \$817,100 | \$2,118,469 | \$1,876,505 |
| Net premiums written | 820,233 | 863,611 | 511,124 | 691,381 | 706,543 | 764,278 | 482,911 | 636,117 | 624,258 | 1,683,844 | 1,470,821 |
| Net premiums earned | \$726,656 | \$680,312 | \$673,192 | \$682,049 | \$642,879 | \$633,695 | \$632,146 | \$627,409 | \$623,011 | \$1,406,968 | \$1,276,574 |
| Fee income..... | 806 | 543 | 982 | 848 | 784 | 815 | 2,814 | 874 | 883 | 1,349 | 1,599 |
| Losses and loss adjustment expenses | (399,693) | (395,207) | (378,067) | (423,984) | (431,622) | (493,880) | (367,326) | (359,193) | (363,145) | (794,900) | (925,502) |
| Acquisition expenses, net | (128,289) | (118,962) | (123,339) | (120,205) | (110,639) | (108,754) | (104,824) | (111,279) | (107,475) | (247,251) | (219,393) |
| Other operating expenses | (105,757) | (99,493) | (103,300) | (100,141) | (101,445) | (95,856) | (112,228) | (97,247) | (92,748) | (205,250) | (197,301) |
| Underwriting income (loss)..... | 93,723 | 67,193 | 69,468 | 38,567 | (43) | (63,980) | 50,582 | 60,564 | 60,526 | 160,916 | (64,023) |
| Net investment income | 73,608 | 74,297 | 80,467 | 82,753 | 86,671 | 88,307 | 90,601 | 90,768 | 90,537 | 147,905 | 174,978 |
| Net realized gains..... | 34,867 | 44,121 | 14,542 | 30,199 | 45,210 | 20,695 | 74,027 | 68,828 | 62,114 | 78,988 | 65,905 |
| Net impairment losses recognized in earnings..... | (1,951) | (1,023) | (1,959) | (2,739) | (1,684) | (2,680) | (3,230) | (2,075) | (4,410) | (2,974) | (4,364) |
| Equity in net income (loss) of investment funds accounted for using the equity method..... | 7,787 | 24,826 | (14,702) | (30,549) | 5,973 | 29,673 | 22,990 | 9,708 | (348) | 32,613 | 35,646 |
| Other income (loss)..... | 695 | (8,068) | (4,848) | 2,432 | (4,265) | 4,567 | 6,165 | 1,840 | 4,528 | (7,373) | 302 |
| Other expenses | (11,944) | (6,979) | (6,777) | (6,180) | (11,397) | (7,026) | (6,881) | (5,796) | (10,503) | (18,923) | (18,423) |
| Interest expense..... | (7,439) | (7,521) | (8,087) | (8,125) | (7,758) | (7,721) | (7,460) | (7,371) | (7,916) | (14,960) | (15,479) |
| Net foreign exchange gains (losses)..... | 31,689 | (20,688) | 12,613 | 60,040 | (18,375) | (36,912) | 6,039 | (65,157) | 48,625 | 11,001 | (55,287) |
| Income before income taxes..... | 221,035 | 166,158 | 140,717 | 166,398 | 94,332 | 24,923 | 232,833 | 151,309 | 243,153 | 387,193 | 119,255 |
| Income tax (expense) benefit..... | (767) | (1,902) | 4,615 | 2,357 | 2,271 | 550 | 3,067 | (3,291) | (1,011) | (2,669) | 2,821 |
| Net income..... | 220,268 | 164,256 | 145,332 | 168,755 | 96,603 | 25,473 | 235,900 | 148,018 | 242,142 | 384,524 | 122,076 |
| Preferred dividends..... | (7,649) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (14,110) | (12,922) |
| Net income available to common shareholders..... | \$212,619 | \$157,795 | \$138,871 | \$162,294 | \$90,142 | \$19,012 | \$229,439 | \$141,557 | \$235,681 | \$370,414 | \$109,154 |
| Underwriting Ratios | | | | | | | | | | | |
| Loss ratio | 55.0% | 58.1% | 56.2% | 62.2% | 67.1% | 77.9% | 58.1% | 57.3% | 58.3% | 56.5% | 72.5% |
| Acquisition expense ratio..... | 17.6% | 17.4% | 18.2% | 17.5% | 17.1% | 17.0% | 16.5% | 17.6% | 17.1% | 17.5% | 17.1% |
| Other operating expense ratio | 14.6% | 14.6% | 15.3% | 14.7% | 15.8% | 15.1% | 17.8% | 15.5% | 14.9% | 14.6% | 15.5% |
| Combined ratio | 87.2% | 90.1% | 89.7% | 94.4% | 100.0% | 110.0% | 92.4% | 90.4% | 90.3% | 88.6% | 105.1% |
| Net premiums written to gross premiums written..... | 78.0% | 81.0% | 73.1% | 80.4% | 77.5% | 79.2% | 72.7% | 76.5% | 76.4% | 79.5% | 78.4% |
| Net income per common share | | | | | | | | | | | |
| Basic..... | \$1.58 | \$1.18 | \$1.05 | \$1.23 | \$0.69 | \$0.14 | \$1.60 | \$0.96 | \$1.54 | \$2.76 | \$0.82 |
| Diluted..... | \$1.54 | \$1.14 | \$1.01 | \$1.18 | \$0.65 | \$0.14 | \$1.53 | \$0.92 | \$1.47 | \$2.68 | \$0.78 |
| Weighted average common shares and common share equivalents outstanding | | | | | | | | | | | |
| Basic..... | 134,529,129 | 133,954,623 | 132,612,528 | 131,560,851 | 131,232,269 | 133,499,241 | 143,320,146 | 146,993,373 | 152,962,620 | 134,241,876 | 132,359,493 |
| Diluted..... | 138,211,736 | 137,814,906 | 137,473,670 | 137,140,929 | 137,975,599 | 140,460,516 | 150,306,429 | 153,546,027 | 159,795,909 | 138,017,490 | 139,234,931 |

Arch Capital Group Ltd. and Subsidiaries
Consolidated Balance Sheets
(U.S. dollars in thousands, except share data)

| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 |
|---|---------------------|---------------------|----------------------|-----------------------|---------------------|---------------------|----------------------|-----------------------|---------------------|
| Assets | | | | | | | | | |
| Investments: | | | | | | | | | |
| Fixed maturities available for sale, at fair value..... | \$9,556,326 | \$9,221,145 | \$9,375,604 | \$9,529,834 | \$9,247,002 | \$8,916,017 | \$8,957,859 | \$9,692,852 | \$9,326,574 |
| Short-term investments available for sale, at fair value..... | 1,087,910 | 1,112,249 | 904,219 | 799,662 | 704,495 | 1,130,142 | 915,841 | 780,671 | 554,304 |
| Investment of funds received under securities lending, at fair value..... | 66,424 | 41,867 | 48,419 | 44,553 | 145,224 | 9,951 | 69,660 | 200,020 | 209,635 |
| Equity securities available for sale, at fair value..... | 260,864 | 318,181 | 299,584 | 273,213 | 320,434 | 361,639 | 310,194 | 79,805 | 38,879 |
| Other investments available for sale, at fair value..... | 381,576 | 357,992 | 238,111 | 229,974 | 299,845 | 293,073 | 275,538 | 229,488 | 211,241 |
| Investments accounted for using the fair value option..... | 496,843 | 500,283 | 366,903 | 319,381 | 321,790 | 256,614 | 219,173 | 175,841 | 140,541 |
| TALF investments, at fair value..... | 307,453 | 313,187 | 387,702 | 392,455 | 399,341 | 400,970 | 402,449 | 410,881 | 407,469 |
| Investments accounted for using the equity method..... | 331,601 | 347,273 | 380,507 | 383,543 | 399,968 | 449,206 | 508,334 | 500,737 | 474,971 |
| Total investments..... | 12,488,997 | 12,212,177 | 12,001,049 | 11,972,615 | 11,838,099 | 11,817,612 | 11,659,048 | 12,070,295 | 11,363,614 |
| Cash..... | 355,392 | 422,806 | 351,699 | 369,895 | 411,001 | 406,877 | 362,740 | 365,997 | 341,469 |
| Accrued investment income..... | 72,095 | 65,643 | 70,739 | 71,264 | 71,083 | 69,057 | 74,837 | 79,180 | 72,102 |
| Investment in joint venture..... | 109,240 | 107,866 | 107,576 | 107,642 | 105,982 | 105,495 | 105,698 | 104,347 | 103,540 |
| Fixed maturities and short-term investments pledged under securities lending, at fair value..... | 74,032 | 50,813 | 56,393 | 72,399 | 150,501 | 198,418 | 75,575 | 203,221 | 214,564 |
| Securities purchased under agreements to resell using funds received under securities lending..... | - | - | - | 20,032 | - | 185,176 | - | - | - |
| Premiums receivable..... | 834,116 | 700,137 | 501,563 | 606,963 | 712,397 | 633,144 | 503,434 | 662,634 | 706,503 |
| Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses..... | 1,849,191 | 1,849,603 | 1,851,584 | 1,840,191 | 1,855,342 | 1,772,130 | 1,763,985 | 1,715,122 | 1,721,059 |
| Contractholder receivables..... | 787,389 | 762,031 | 748,231 | 732,270 | 702,423 | 672,296 | 660,546 | 635,682 | 609,476 |
| Prepaid reinsurance premiums..... | 313,264 | 261,619 | 265,696 | 267,846 | 278,587 | 259,624 | 263,448 | 267,240 | 256,952 |
| Deferred acquisition costs, net..... | 272,736 | 261,467 | 227,884 | 253,163 | 257,292 | 251,226 | 227,278 | 244,441 | 241,095 |
| Receivable for securities sold..... | 821,527 | 621,560 | 462,891 | 1,067,188 | 733,931 | 749,708 | 56,145 | 1,329,508 | 1,084,122 |
| Other assets..... | 518,744 | 497,061 | 460,052 | 490,728 | 520,901 | 521,292 | 490,277 | 461,473 | 480,448 |
| Total Assets..... | <u>\$18,496,723</u> | <u>\$17,812,783</u> | <u>\$17,105,357</u> | <u>\$17,872,196</u> | <u>\$17,637,539</u> | <u>\$17,642,055</u> | <u>\$16,243,011</u> | <u>\$18,139,140</u> | <u>\$17,194,944</u> |
| Liabilities | | | | | | | | | |
| Reserve for losses and loss adjustment expenses..... | \$8,546,350 | \$8,511,323 | \$8,456,210 | \$8,523,522 | \$8,564,908 | \$8,319,324 | \$8,098,454 | \$8,054,677 | \$7,940,104 |
| Unearned premiums..... | 1,815,135 | 1,595,712 | 1,411,872 | 1,578,419 | 1,589,497 | 1,504,162 | 1,370,075 | 1,524,100 | 1,492,550 |
| Reinsurance balances payable..... | 184,763 | 137,791 | 133,866 | 123,815 | 154,860 | 131,512 | 132,452 | 130,274 | 128,723 |
| Contractholder payables..... | 787,389 | 762,031 | 748,231 | 732,270 | 702,423 | 672,296 | 660,546 | 635,682 | 609,476 |
| Senior notes..... | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Revolving credit agreement borrowings..... | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 125,000 | 125,000 |
| TALF borrowings, at fair value..... | 235,818 | 239,551 | 310,486 | 314,137 | 318,441 | 322,222 | 325,770 | 331,797 | 336,213 |
| Securities lending payable..... | 76,383 | 52,224 | 58,546 | 74,696 | 155,072 | 203,925 | 78,021 | 209,411 | 219,796 |
| Payable for securities purchased..... | 927,962 | 742,995 | 480,230 | 1,161,591 | 838,787 | 1,266,390 | 200,192 | 1,649,462 | 1,192,181 |
| Other liabilities..... | 502,607 | 531,700 | 513,842 | 527,847 | 510,521 | 533,189 | 500,715 | 498,832 | 490,890 |
| Total Liabilities..... | <u>13,476,407</u> | <u>12,973,327</u> | <u>12,513,283</u> | <u>13,436,297</u> | <u>13,234,509</u> | <u>13,353,020</u> | <u>11,766,225</u> | <u>13,459,235</u> | <u>12,834,933</u> |
| Commitments and Contingencies | | | | | | | | | |
| Shareholders' Equity | | | | | | | | | |
| Non-cumulative preferred shares..... | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Common shares..... | 556 | 552 | 549 | 544 | 541 | 535 | 534 | 531 | 529 |
| Additional paid-in capital..... | 187,013 | 170,694 | 161,419 | 150,882 | 142,001 | 120,109 | 110,325 | 100,640 | 83,828 |
| Retained earnings..... | 5,167,069 | 4,954,450 | 4,796,655 | 4,657,784 | 4,495,490 | 4,405,348 | 4,386,336 | 4,156,897 | 4,015,340 |
| Accumulated other comprehensive income, net of deferred income tax..... | 193,097 | 234,468 | 153,923 | 146,576 | 263,584 | 225,405 | 204,503 | 388,370 | 173,231 |
| Common shares held in treasury, at cost..... | (852,419) | (845,708) | (845,472) | (844,887) | (823,586) | (787,362) | (549,912) | (291,533) | (237,917) |
| Total Shareholders' Equity..... | <u>5,020,316</u> | <u>4,839,456</u> | <u>4,592,074</u> | <u>4,435,899</u> | <u>4,403,030</u> | <u>4,289,035</u> | <u>4,476,786</u> | <u>4,679,905</u> | <u>4,360,011</u> |
| Total Liabilities and Shareholders' Equity..... | <u>\$18,496,723</u> | <u>\$17,812,783</u> | <u>\$17,105,357</u> | <u>\$17,872,196</u> | <u>\$17,637,539</u> | <u>\$17,642,055</u> | <u>\$16,243,011</u> | <u>\$18,139,140</u> | <u>\$17,194,944</u> |
| Common shares outstanding, net of treasury shares..... | 136,291,652 | 135,441,687 | 134,358,345 | 133,005,465 | 132,771,524 | 131,850,639 | 139,632,225 | 147,676,113 | 148,891,710 |
| Book value per common share (1)..... | <u>\$34.45</u> | <u>\$33.33</u> | <u>\$31.76</u> | <u>\$30.91</u> | <u>\$30.71</u> | <u>\$30.06</u> | <u>\$29.73</u> | <u>\$29.49</u> | <u>\$27.10</u> |

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

Arch Capital Group Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
(U.S. dollars in thousands)

| | Three Months Ended | | | | | | | | Six Months Ended | | |
|---|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| Comprehensive Income | | | | | | | | | | | |
| Net income..... | \$220,268 | \$164,256 | \$145,332 | \$168,755 | \$96,603 | \$25,473 | \$235,900 | \$148,018 | \$242,142 | \$384,524 | \$122,076 |
| Other comprehensive income (loss), net of deferred income tax | | | | | | | | | | | |
| Unrealized holding gains (losses) arising during period..... | 18,060 | 94,863 | 40,476 | (71,861) | 84,862 | 40,370 | (141,807) | 264,609 | 71,087 | 112,923 | 125,232 |
| Portion of other-than-temporary impairment losses recognized in other comprehensive income, net of deferred income tax..... | (503) | (8) | (1,485) | (2,440) | (285) | (578) | (111) | (603) | (308) | (511) | (863) |
| Reclassification of net realized gains, net of income taxes, included in net income..... | (43,792) | (27,511) | (29,785) | (30,707) | (47,682) | (20,176) | (43,414) | (56,299) | (32,611) | (71,303) | (67,858) |
| Foreign currency translation adjustments..... | (15,136) | 13,201 | (1,859) | (12,000) | 1,284 | 1,286 | 1,465 | 7,432 | (5,899) | (1,935) | 2,570 |
| Other comprehensive income (loss)..... | (41,371) | 80,545 | 7,347 | (117,008) | 38,179 | 20,902 | (183,867) | 215,139 | 32,269 | 39,174 | 59,081 |
| Comprehensive Income..... | <u>\$178,897</u> | <u>\$244,801</u> | <u>\$152,679</u> | <u>\$51,747</u> | <u>\$134,782</u> | <u>\$46,375</u> | <u>\$52,033</u> | <u>\$363,157</u> | <u>\$274,411</u> | <u>\$423,698</u> | <u>\$181,157</u> |

Arch Capital Group Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(U.S. dollars in thousands)

| | Three Months Ended | | | | | | | | Six Months Ended | | |
|--|--------------------|--------------------|----------------------|-----------------------|--------------------|--------------------|----------------------|-----------------------|--------------------|--------------------|--------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| Non-Cumulative Preferred Shares | | | | | | | | | | | |
| Balance at beginning of period..... | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 | \$325,000 |
| Shares issued - Series C..... | 325,000 | - | - | - | - | - | - | - | - | 325,000 | - |
| Shares repurchased - Series A and B..... | (325,000) | - | - | - | - | - | - | - | - | (325,000) | - |
| Balance at end of period..... | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> | <u>325,000</u> |
| Common Shares | | | | | | | | | | | |
| Balance at beginning of period..... | 552 | 549 | 544 | 541 | 535 | 534 | 531 | 529 | 527 | 549 | 534 |
| Common shares issued, net..... | 4 | 3 | 5 | 3 | 6 | 1 | 3 | 2 | 7 | 7 | 7 |
| Purchases of common shares under share repurchase program..... | - | - | - | - | - | - | - | - | (5) | - | - |
| Balance at end of period..... | <u>556</u> | <u>552</u> | <u>549</u> | <u>544</u> | <u>541</u> | <u>535</u> | <u>534</u> | <u>531</u> | <u>529</u> | <u>556</u> | <u>541</u> |
| Additional Paid-in Capital | | | | | | | | | | | |
| Balance at beginning of period..... | 170,694 | 161,419 | 150,882 | 142,001 | 120,109 | 110,325 | 100,640 | 83,828 | 95,926 | 161,419 | 110,325 |
| Common shares issued, net..... | 4,556 | (3) | 1,857 | (2) | 3,904 | 8 | 1,334 | 283 | 3,275 | 4,553 | 3,912 |
| Issue costs on Series C preferred shares..... | (9,397) | - | - | - | - | - | - | - | - | (9,397) | - |
| Exercise of stock options..... | 2,971 | 1,851 | 2,926 | 3,007 | 2,245 | 4,127 | 2,716 | 10,486 | 7,964 | 4,822 | 6,372 |
| Common shares retired..... | - | - | - | - | - | - | - | - | (36,212) | - | - |
| Amortization of share-based compensation..... | 16,519 | 7,411 | 5,700 | 5,781 | 13,877 | 5,628 | 5,615 | 6,074 | 12,280 | 23,930 | 19,505 |
| Other..... | 1,670 | 16 | 54 | 95 | 1,866 | 21 | 20 | (31) | 595 | 1,686 | 1,887 |
| Balance at end of period..... | <u>187,013</u> | <u>170,694</u> | <u>161,419</u> | <u>150,882</u> | <u>142,001</u> | <u>120,109</u> | <u>110,325</u> | <u>100,640</u> | <u>83,828</u> | <u>187,013</u> | <u>142,001</u> |
| Retained Earnings | | | | | | | | | | | |
| Balance at beginning of period..... | 4,954,450 | 4,796,655 | 4,657,784 | 4,495,490 | 4,405,348 | 4,386,336 | 4,156,897 | 4,015,340 | 3,779,659 | 4,796,655 | 4,386,336 |
| Dividends declared on preferred shares..... | (7,649) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (14,110) | (12,922) |
| Net income..... | 220,268 | 164,256 | 145,332 | 168,755 | 96,603 | 25,473 | 235,900 | 148,018 | 242,142 | 384,524 | 122,076 |
| Balance at end of period..... | <u>5,167,069</u> | <u>4,954,450</u> | <u>4,796,655</u> | <u>4,657,784</u> | <u>4,495,490</u> | <u>4,405,348</u> | <u>4,386,336</u> | <u>4,156,897</u> | <u>4,015,340</u> | <u>5,167,069</u> | <u>4,495,490</u> |
| Accumulated Other Comprehensive Income (Loss) | | | | | | | | | | | |
| Balance at beginning of period..... | 234,468 | 153,923 | 146,576 | 263,584 | 225,405 | 204,503 | 388,370 | 173,231 | 140,962 | 153,923 | 204,503 |
| Change in unrealized appreciation (decline) in value of investments, net of deferred income tax..... | (25,732) | 67,352 | 10,691 | (102,568) | 37,180 | 20,194 | (185,221) | 208,310 | 38,476 | 41,620 | 57,374 |
| Portion of other-than-temporary impairment losses recognized in other comprehensive income, net of deferred income tax..... | (503) | (8) | (1,485) | (2,440) | (285) | (578) | (111) | (603) | (308) | (511) | (863) |
| Foreign currency translation adjustments, net of deferred income tax..... | (15,136) | 13,201 | (1,859) | (12,000) | 1,284 | 1,286 | 1,465 | 7,432 | (5,899) | (1,935) | 2,570 |
| Balance at end of period..... | <u>193,097</u> | <u>234,468</u> | <u>153,923</u> | <u>146,576</u> | <u>263,584</u> | <u>225,405</u> | <u>204,503</u> | <u>388,370</u> | <u>173,231</u> | <u>193,097</u> | <u>263,584</u> |
| Common Shares Held in Treasury, at Cost | | | | | | | | | | | |
| Balance at beginning of period..... | (845,708) | (845,472) | (844,887) | (823,586) | (787,362) | (549,912) | (291,533) | (237,917) | - | (845,472) | (549,912) |
| Shares repurchased for treasury..... | (6,711) | (236) | (585) | (21,301) | (36,224) | (237,450) | (258,379) | (53,616) | (237,917) | (6,947) | (273,674) |
| Balance at end of period..... | <u>(852,419)</u> | <u>(845,708)</u> | <u>(845,472)</u> | <u>(844,887)</u> | <u>(823,586)</u> | <u>(787,362)</u> | <u>(549,912)</u> | <u>(291,533)</u> | <u>(237,917)</u> | <u>(852,419)</u> | <u>(823,586)</u> |
| Total Shareholders' Equity..... | <u>\$5,020,316</u> | <u>\$4,839,456</u> | <u>\$4,592,074</u> | <u>\$4,435,899</u> | <u>\$4,403,030</u> | <u>\$4,289,035</u> | <u>\$4,476,786</u> | <u>\$4,679,905</u> | <u>\$4,360,011</u> | <u>\$5,020,316</u> | <u>\$4,403,030</u> |

Arch Capital Group Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
(U.S. dollars in thousands)

| | Three Months Ended | | | | | | | | Six Months Ended | | |
|--|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| Operating Activities | | | | | | | | | | | |
| Net income..... | \$220,268 | \$164,256 | \$145,332 | \$168,755 | \$96,603 | \$25,473 | \$235,900 | \$148,018 | \$242,142 | \$384,524 | \$122,076 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | | | | | |
| Net realized gains..... | (36,681) | (44,072) | (12,940) | (29,615) | (48,886) | (22,481) | (78,261) | (72,534) | (62,406) | (80,753) | (71,367) |
| Net impairment losses included in earnings..... | 1,951 | 1,023 | 1,959 | 2,739 | 1,684 | 2,680 | 3,230 | 2,075 | 4,410 | 2,974 | 4,364 |
| Equity in net income or loss of investment funds accounted for using the equity method and other income | (6,111) | (12,030) | 20,776 | 31,734 | 18,945 | (355) | (26,110) | (11,545) | (3,368) | (18,141) | 18,590 |
| Share-based compensation | 16,519 | 7,411 | 5,700 | 5,781 | 13,877 | 5,628 | 5,615 | 6,074 | 12,280 | 23,930 | 19,505 |
| Changes in: | | | | | | | | | | | |
| Reserve for losses and loss adjustment expenses, net of unpaid losses and loss adjustment expenses recoverable | 68,327 | 39,343 | (59,998) | 48,397 | 130,746 | 155,477 | 3,546 | 49,420 | 71,357 | 107,670 | 286,223 |
| Unearned premiums, net of prepaid reinsurance premiums | 95,142 | 181,735 | (162,490) | 9,919 | 63,987 | 130,136 | (149,242) | 9,024 | 236 | 276,877 | 194,123 |
| Premiums receivable | (83,633) | (190,102) | 106,818 | 82,200 | (77,556) | (118,688) | 157,034 | 63,197 | (20,280) | (273,735) | (196,244) |
| Deferred acquisition costs, net | (13,121) | (32,269) | 24,823 | 1,438 | (5,464) | (22,056) | 16,684 | (31) | 3,756 | (45,390) | (27,520) |
| Reinsurance balances payable | 40,310 | (3,181) | 8,896 | (19,368) | 23,109 | (7,122) | 3,277 | (4,853) | 19,267 | 37,129 | 15,987 |
| Other liabilities | (12,660) | 10,134 | 30,620 | 5,925 | (26,613) | 33,366 | (47,339) | 23,914 | (57,219) | (2,526) | 6,753 |
| Other items, net | (37,864) | 22,573 | 145 | 2,019 | 31,535 | 42,522 | 20,179 | 54,665 | (4,661) | (15,291) | 74,057 |
| Net Cash Provided By Operating Activities | 252,447 | 144,821 | 109,641 | 309,924 | 221,967 | 224,580 | 144,513 | 267,424 | 205,514 | 397,268 | 446,547 |
| Investing Activities | | | | | | | | | | | |
| Purchases of: | | | | | | | | | | | |
| Fixed maturity investments | (3,952,868) | (3,593,630) | (3,758,854) | (2,729,874) | (4,235,140) | (3,151,767) | (2,434,319) | (5,018,619) | (4,885,606) | (7,546,498) | (7,386,907) |
| Equity securities..... | (76,500) | (33,803) | (69,962) | (94,115) | (159,157) | (89,790) | (226,677) | (65,155) | (21,727) | (110,303) | (248,947) |
| Other investments | (147,076) | (239,167) | (220,048) | (166,449) | (114,588) | (92,777) | (147,127) | (92,955) | (150,631) | (386,243) | (207,365) |
| Proceeds from the sales of: | | | | | | | | | | | |
| Fixed maturity investments | 3,258,254 | 3,628,932 | 3,542,629 | 2,299,627 | 3,323,456 | 3,232,541 | 2,670,332 | 4,872,668 | 4,668,666 | 6,887,186 | 6,555,997 |
| Equity securities..... | 122,625 | 75,860 | 58,386 | 111,467 | 147,334 | 52,316 | 14,522 | 19,151 | 25,043 | 198,485 | 199,650 |
| Other investments | 105,815 | 111,149 | 147,243 | 191,767 | 119,780 | 84,967 | 133,211 | 68,843 | 87,536 | 216,964 | 204,747 |
| Proceeds from redemptions and maturities of fixed maturities..... | 337,132 | 261,660 | 296,408 | 200,671 | 283,512 | 253,898 | 266,044 | 226,889 | 244,312 | 598,792 | 537,410 |
| Net (purchases) sales of short-term investments | 32,837 | (207,444) | (114,854) | (123,211) | 459,091 | (223,415) | (129,794) | (205,411) | 96,239 | (174,607) | 235,676 |
| Change in investment of securities lending collateral | (24,159) | 6,322 | 16,150 | 80,376 | 48,853 | (125,904) | 131,389 | 10,385 | (30,772) | (17,837) | (77,051) |
| Purchase of business, net of cash acquired..... | 28,948 | - | - | - | - | - | - | - | - | 28,948 | - |
| Purchases of furniture, equipment and other | (3,710) | (6,498) | (3,461) | (3,178) | (4,266) | (8,082) | (1,553) | (2,251) | (6,057) | (10,208) | (12,348) |
| Net Cash Provided By (Used For) Investing Activities | (318,702) | 3,381 | (106,363) | (232,919) | (131,125) | (68,013) | 276,028 | (186,455) | 27,003 | (315,321) | (199,138) |
| Financing Activities | | | | | | | | | | | |
| Proceeds from issuance of Series C preferred shares, net..... | 315,789 | - | - | - | - | - | - | - | - | 315,789 | - |
| Repurchase of Series A and B preferred shares..... | (325,000) | - | - | - | - | - | - | - | - | (325,000) | - |
| Purchases of common shares under share repurchase program | - | - | (3) | (20,833) | (29,552) | (237,173) | (258,150) | (53,398) | (269,054) | - | (266,725) |
| Proceeds from common shares issued, net | (432) | 780 | 3,245 | 1,609 | (1,397) | 2,875 | 4,693 | 8,586 | 3,779 | 348 | 1,478 |
| Proceeds from borrowings..... | - | - | - | - | - | - | - | - | 50,000 | - | - |
| Repayments of borrowings..... | (3,910) | (69,863) | (3,513) | (4,225) | (3,919) | (3,695) | (31,072) | (5,646) | (34,022) | (73,773) | (7,614) |
| Change in securities lending collateral | 24,159 | (6,322) | (16,150) | (80,376) | (48,853) | 125,904 | (131,389) | (10,385) | 30,772 | 17,837 | 77,051 |
| Other..... | 2,876 | 588 | 766 | 818 | 2,467 | 714 | (893) | 1,593 | 2,296 | 3,464 | 3,181 |
| Preferred dividends paid | (10,951) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (6,461) | (17,412) | (12,922) |
| Net Cash Used For Financing Activities | 2,531 | (81,278) | (22,116) | (109,468) | (87,715) | (117,836) | (423,272) | (65,711) | (222,690) | (78,747) | (205,551) |
| Effects of exchange rate changes on foreign currency cash | (3,690) | 4,183 | 642 | (8,643) | 997 | 5,406 | (526) | 9,270 | (7,066) | 493 | 6,403 |
| Increase (decrease) in cash | (67,414) | 71,107 | (18,196) | (41,106) | 4,124 | 44,137 | (3,257) | 24,528 | 2,761 | 3,693 | 48,261 |
| Cash beginning of period | 422,806 | 351,699 | 369,895 | 411,001 | 406,877 | 362,740 | 365,997 | 341,469 | 338,708 | 351,699 | 362,740 |
| Cash end of period | \$355,392 | \$422,806 | \$351,699 | \$369,895 | \$411,001 | \$406,877 | \$362,740 | \$365,997 | \$341,469 | \$355,392 | \$411,001 |
| Income taxes paid (received), net | \$1,548 | \$2,788 | (\$7,724) | \$3,662 | \$2,296 | \$3,670 | \$3,140 | \$1,928 | \$1,430 | \$4,336 | \$5,966 |
| Interest paid | \$12,843 | \$2,206 | \$13,047 | \$2,177 | \$13,084 | \$2,191 | \$12,831 | \$1,832 | \$13,437 | \$15,049 | \$15,275 |

Arch Capital Group Ltd. and Subsidiaries Segment Information -- Overview

The Company classifies its businesses into two underwriting segments – insurance and reinsurance – and corporate and other (non-underwriting). The Company's insurance and reinsurance operating segments each have segment 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. 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.

Management measures segment performance based on underwriting income or loss. The Company does not manage its assets by segment and, accordingly, investment income is not allocated to each underwriting segment. In addition, other revenue and expense items are not evaluated by segment. 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 insurance segment consists of the Company's insurance underwriting subsidiaries which primarily write on both an admitted and non-admitted basis. Specialty product lines include: casualty; construction; executive assurance; healthcare; national accounts casualty; professional liability; programs; property, energy, marine and aviation; surety; travel and accident; and other (consisting of excess workers' compensation, employers' liability and collateral protection business).

The reinsurance segment consists of the Company's reinsurance underwriting subsidiaries. The reinsurance segment generally seeks to write significant lines on specialty property and casualty reinsurance contracts. Classes of business include: casualty; marine and aviation; other specialty; property catastrophe; property excluding property catastrophe (losses on a single risk, both excess of loss and pro rata); and other (consisting of non-traditional, casualty clash and other business).

Corporate and other (non-underwriting) includes 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 dividends on the Company's non-cumulative preferred shares.

Arch Capital Group Ltd. and Subsidiaries
Segment Information -- Three Months Ended June 30, 2012 and 2011
(U.S. dollars in thousands)

| | Three Months Ended June 30, 2012 | | | Three Months Ended June 30, 2011 | | |
|---|-------------------------------------|-----------------|------------------|-------------------------------------|-----------------|-----------------|
| | Insurance | Reinsurance | Total | Insurance | Reinsurance | Total |
| Gross premiums written (1)..... | \$676,090 | \$376,981 | \$1,051,813 | \$635,005 | \$277,766 | \$911,939 |
| Net premiums written | 464,584 | 355,649 | 820,233 | 438,263 | 268,280 | 706,543 |
| Net premiums earned | \$446,594 | \$280,062 | \$726,656 | \$410,819 | \$232,060 | \$642,879 |
| Fee income..... | 628 | 178 | 806 | 702 | 82 | 784 |
| Losses and loss adjustment expenses | (290,416) | (109,277) | (399,693) | (301,642) | (129,980) | (431,622) |
| Acquisition expenses, net | (76,058) | (52,231) | (128,289) | (66,543) | (44,096) | (110,639) |
| Other operating expenses | (76,617) | (29,140) | (105,757) | (77,774) | (23,671) | (101,445) |
| Underwriting income (loss)..... | <u>\$4,131</u> | <u>\$89,592</u> | 93,723 | <u>(\$34,438)</u> | <u>\$34,395</u> | (43) |
| Net investment income | | | 73,608 | | | 86,671 |
| Net realized gains..... | | | 34,867 | | | 45,210 |
| Net impairment losses recognized in earnings..... | | | (1,951) | | | (1,684) |
| Equity in net income (loss) of investment funds accounted for using the equity method..... | | | 7,787 | | | 5,973 |
| Other income (loss)..... | | | 695 | | | (4,265) |
| Other expenses | | | (11,944) | | | (11,397) |
| Interest expense..... | | | (7,439) | | | (7,758) |
| Net foreign exchange gains (losses)..... | | | 31,689 | | | (18,375) |
| Income before income taxes..... | | | <u>221,035</u> | | | <u>94,332</u> |
| Income tax (expense) benefit..... | | | (767) | | | 2,271 |
| Net income..... | | | 220,268 | | | 96,603 |
| Preferred dividends..... | | | (7,649) | | | (6,461) |
| Net income available to common shareholders..... | | | <u>\$212,619</u> | | | <u>\$90,142</u> |
| Underwriting Ratios | | | | | | |
| Loss ratio | 65.0% | 39.0% | 55.0% | 73.4% | 56.0% | 67.1% |
| Acquisition expense ratio (2)..... | 16.9% | 18.6% | 17.6% | 16.0% | 19.0% | 17.1% |
| Other operating expense ratio | 17.2% | 10.4% | 14.6% | 18.9% | 10.2% | 15.8% |
| Combined ratio | <u>99.1%</u> | <u>68.0%</u> | <u>87.2%</u> | <u>108.3%</u> | <u>85.2%</u> | <u>100.0%</u> |
| Net premiums written to gross premiums written..... | 68.7% | 94.3% | 78.0% | 69.0% | 96.6% | 77.5% |

(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.

(2) The acquisition expense ratio is adjusted to include certain fee income.

Arch Capital Group Ltd. and Subsidiaries
Segment Information -- Six Months Ended June 30, 2012 and 2011
(U.S. dollars in thousands)

| | Six Months Ended June 30, 2012 | | | Six Months Ended June 30, 2011 | | |
|---|-----------------------------------|------------------|------------------|-----------------------------------|------------------|------------------|
| | Insurance | Reinsurance | Total | Insurance | Reinsurance | Total |
| Gross premiums written (1)..... | \$1,364,203 | \$756,957 | \$2,118,469 | \$1,269,588 | \$608,779 | \$1,876,505 |
| Net premiums written | 955,264 | 728,580 | 1,683,844 | 887,554 | 583,267 | 1,470,821 |
| Net premiums earned | \$888,334 | \$518,634 | \$1,406,968 | \$818,410 | \$458,164 | \$1,276,574 |
| Fee income..... | 1,158 | 191 | 1,349 | 1,480 | 119 | 1,599 |
| Losses and loss adjustment expenses | (593,580) | (201,320) | (794,900) | (599,365) | (326,137) | (925,502) |
| Acquisition expenses, net | (149,928) | (97,323) | (247,251) | (127,958) | (91,435) | (219,393) |
| Other operating expenses | (149,987) | (55,263) | (205,250) | (152,403) | (44,898) | (197,301) |
| Underwriting income (loss)..... | <u>(\$4,003)</u> | <u>\$164,919</u> | 160,916 | <u>(\$59,836)</u> | <u>(\$4,187)</u> | (64,023) |
| Net investment income | | | 147,905 | | | 174,978 |
| Net realized gains..... | | | 78,988 | | | 65,905 |
| Net impairment losses recognized in earnings..... | | | (2,974) | | | (4,364) |
| Equity in net income (loss) of investment funds accounted for using the equity method..... | | | 32,613 | | | 35,646 |
| Other income (loss)..... | | | (7,373) | | | 302 |
| Other expenses | | | (18,923) | | | (18,423) |
| Interest expense..... | | | (14,960) | | | (15,479) |
| Net foreign exchange gains (losses)..... | | | 11,001 | | | (55,287) |
| Income before income taxes..... | | | <u>387,193</u> | | | <u>119,255</u> |
| Income tax (expense) benefit..... | | | (2,669) | | | 2,821 |
| Net income..... | | | 384,524 | | | 122,076 |
| Preferred dividends..... | | | (14,110) | | | (12,922) |
| Net income available to common shareholders..... | | | <u>\$370,414</u> | | | <u>\$109,154</u> |
| Underwriting Ratios | | | | | | |
| Loss ratio | 66.8% | 38.8% | 56.5% | 73.2% | 71.2% | 72.5% |
| Acquisition expense ratio (2)..... | 16.7% | 18.8% | 17.5% | 15.5% | 20.0% | 17.1% |
| Other operating expense ratio | 16.9% | 10.7% | 14.6% | 18.6% | 9.8% | 15.5% |
| Combined ratio | <u>100.4%</u> | <u>68.3%</u> | <u>88.6%</u> | <u>107.3%</u> | <u>101.0%</u> | <u>105.1%</u> |
| Net premiums written to gross premiums written..... | 70.0% | 96.3% | 79.5% | 69.9% | 95.8% | 78.4% |

(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.

(2) The acquisition expense ratio is adjusted to include certain fee income.

Arch Capital Group Ltd. and Subsidiaries
Segment Information -- Insurance Segment
(U.S. dollars in thousands)

| | Three Months Ended | | | | Six Months Ended | | | |
|--|--------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | June 30, | | | | June 30, | | | |
| | 2012 | | 2011 | | 2012 | | 2011 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Net premiums written | | | | | | | | |
| Property, energy, marine and aviation..... | \$86,390 | 18.6 | \$103,296 | 23.6 | \$166,209 | 17.4 | \$179,714 | 20.2 |
| Programs..... | 92,998 | 20.0 | 81,629 | 18.6 | 174,614 | 18.3 | 156,025 | 17.6 |
| Professional liability..... | 65,198 | 14.0 | 57,906 | 13.2 | 135,759 | 14.2 | 117,291 | 13.2 |
| Executive assurance..... | 60,205 | 13.0 | 53,974 | 12.3 | 128,583 | 13.5 | 110,042 | 12.4 |
| National accounts..... | 4,961 | 1.1 | 4,397 | 1.0 | 40,399 | 4.2 | 44,588 | 5.0 |
| Construction..... | 49,784 | 10.7 | 42,408 | 9.7 | 83,437 | 8.7 | 73,917 | 8.3 |
| Casualty..... | 30,638 | 6.6 | 24,939 | 5.7 | 57,611 | 6.0 | 55,073 | 6.2 |
| Travel and accident..... | 20,294 | 4.4 | 19,284 | 4.4 | 43,130 | 4.5 | 40,785 | 4.6 |
| Lenders products..... | 20,477 | 4.4 | 21,526 | 4.9 | 42,892 | 4.5 | 42,600 | 4.8 |
| Healthcare..... | 7,959 | 1.7 | 8,422 | 1.9 | 18,594 | 1.9 | 17,539 | 2.0 |
| Surety..... | 12,723 | 2.7 | 9,618 | 2.2 | 24,857 | 2.6 | 19,352 | 2.2 |
| Other (1)..... | 12,957 | 2.8 | 10,864 | 2.5 | 39,179 | 4.2 | 30,628 | 3.5 |
| Total | <u>\$464,584</u> | <u>100.0</u> | <u>\$438,263</u> | <u>100.0</u> | <u>\$955,264</u> | <u>100.0</u> | <u>\$887,554</u> | <u>100.0</u> |
| Net premiums earned | | | | | | | | |
| Property, energy, marine and aviation..... | \$77,590 | 17.4 | \$76,644 | 18.7 | \$156,084 | 17.6 | \$150,243 | 18.4 |
| Programs..... | 80,589 | 18.0 | 71,934 | 17.5 | 154,587 | 17.4 | 138,952 | 17.0 |
| Professional liability..... | 68,017 | 15.2 | 57,767 | 14.1 | 131,273 | 14.8 | 125,167 | 15.3 |
| Executive assurance..... | 60,856 | 13.6 | 60,488 | 14.7 | 119,622 | 13.5 | 115,058 | 14.1 |
| National accounts..... | 18,415 | 4.1 | 18,166 | 4.4 | 37,551 | 4.2 | 39,328 | 4.8 |
| Construction..... | 31,692 | 7.1 | 27,214 | 6.6 | 63,500 | 7.1 | 55,605 | 6.8 |
| Casualty..... | 28,102 | 6.3 | 24,829 | 6.0 | 57,167 | 6.4 | 53,256 | 6.5 |
| Travel and accident..... | 20,661 | 4.6 | 19,455 | 4.7 | 37,374 | 4.2 | 35,054 | 4.3 |
| Lenders products..... | 21,411 | 4.8 | 19,966 | 4.9 | 53,564 | 6.0 | 38,202 | 4.7 |
| Healthcare..... | 9,077 | 2.0 | 9,089 | 2.2 | 17,975 | 2.0 | 17,741 | 2.2 |
| Surety..... | 10,798 | 2.4 | 9,402 | 2.3 | 21,358 | 2.4 | 19,181 | 2.3 |
| Other (1)..... | 19,386 | 4.5 | 15,865 | 3.9 | 38,279 | 4.4 | 30,623 | 3.6 |
| Total | <u>\$446,594</u> | <u>100.0</u> | <u>\$410,819</u> | <u>100.0</u> | <u>\$888,334</u> | <u>100.0</u> | <u>\$818,410</u> | <u>100.0</u> |
| Net premiums written by client location | | | | | | | | |
| United States..... | \$345,730 | 74.4 | \$324,177 | 74.0 | \$680,283 | 71.2 | \$629,393 | 70.9 |
| Europe..... | 55,586 | 12.0 | 59,797 | 13.6 | 163,217 | 17.1 | 159,888 | 18.0 |
| Other..... | 63,268 | 13.6 | 54,289 | 12.4 | 111,764 | 11.7 | 98,273 | 11.1 |
| Total | <u>\$464,584</u> | <u>100.0</u> | <u>\$438,263</u> | <u>100.0</u> | <u>\$955,264</u> | <u>100.0</u> | <u>\$887,554</u> | <u>100.0</u> |
| Net premiums written by underwriting location | | | | | | | | |
| United States..... | \$324,438 | 69.8 | \$301,782 | 68.9 | \$645,997 | 67.6 | \$596,825 | 67.2 |
| Europe..... | 108,888 | 23.4 | 104,884 | 23.9 | 261,503 | 27.4 | 240,420 | 27.1 |
| Other..... | 31,258 | 6.8 | 31,597 | 7.2 | 47,764 | 5.0 | 50,309 | 5.7 |
| Total | <u>\$464,584</u> | <u>100.0</u> | <u>\$438,263</u> | <u>100.0</u> | <u>\$955,264</u> | <u>100.0</u> | <u>\$887,554</u> | <u>100.0</u> |

(1) Includes excess workers' compensation, employer's liability, alternative markets and accident and health business.

Arch Capital Group Ltd. and Subsidiaries
Segment Information -- Insurance Segment
(U.S. dollars in thousands)

| | Three Months Ended | | | | | | | | | Six Months Ended | |
|--|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| Gross premiums written..... | \$676,090 | \$688,113 | \$540,617 | \$634,280 | \$635,005 | \$634,583 | \$527,783 | \$624,490 | \$616,353 | \$1,364,203 | \$1,269,588 |
| Net premiums written | 464,584 | 490,680 | 360,739 | 472,986 | 438,263 | 449,291 | 351,841 | 431,361 | 422,837 | 955,264 | 887,554 |
| Net premiums earned | \$446,594 | \$441,740 | \$422,667 | \$437,970 | \$410,819 | \$407,591 | \$404,275 | \$411,881 | \$405,473 | \$888,334 | \$818,410 |
| Fee income..... | 628 | 530 | 729 | 661 | 702 | 778 | 761 | 864 | 874 | 1,158 | 1,480 |
| Losses and loss adjustment expenses | (290,416) | (303,164) | (282,769) | (290,608) | (301,642) | (297,723) | (264,848) | (265,411) | (275,294) | (593,580) | (599,365) |
| Acquisition expenses, net | (76,058) | (73,870) | (73,975) | (76,763) | (66,543) | (61,415) | (63,102) | (67,309) | (65,359) | (149,928) | (127,958) |
| Other operating expenses | (76,617) | (73,370) | (77,593) | (77,801) | (77,774) | (74,629) | (82,535) | (76,892) | (72,533) | (149,987) | (152,403) |
| Underwriting income (loss)..... | \$4,131 | (\$8,134) | (\$10,941) | (\$6,541) | (\$34,438) | (\$25,398) | (\$5,449) | \$3,133 | (\$6,839) | (\$4,003) | (\$59,836) |
| Underwriting Ratios | | | | | | | | | | | |
| Loss ratio | 65.0% | 68.6% | 66.9% | 66.4% | 73.4% | 73.0% | 65.5% | 64.4% | 67.9% | 66.8% | 73.2% |
| Acquisition expense ratio (1)..... | 16.9% | 16.6% | 17.3% | 17.4% | 16.0% | 14.9% | 15.4% | 16.1% | 15.9% | 16.7% | 15.5% |
| Other operating expense ratio | 17.2% | 16.6% | 18.4% | 17.8% | 18.9% | 18.3% | 20.4% | 18.7% | 17.9% | 16.9% | 18.6% |
| Combined ratio | 99.1% | 101.8% | 102.6% | 101.6% | 108.3% | 106.2% | 101.3% | 99.2% | 101.7% | 100.4% | 107.3% |
| Net premiums written | | | | | | | | | | | |
| Property, energy, marine and aviation..... | \$86,390 | \$79,819 | \$41,244 | \$114,631 | \$103,296 | \$76,418 | \$44,258 | \$88,412 | \$88,194 | \$166,209 | \$179,714 |
| Programs..... | 92,998 | 81,616 | 62,874 | 79,086 | 81,629 | 74,396 | 60,969 | 68,264 | 73,345 | 174,614 | 156,025 |
| Professional liability..... | 65,198 | 70,561 | 54,085 | 66,484 | 57,906 | 59,385 | 51,559 | 78,873 | 70,626 | 135,759 | 117,291 |
| Executive assurance..... | 60,205 | 68,378 | 59,035 | 62,328 | 53,974 | 56,068 | 54,448 | 51,503 | 52,514 | 128,583 | 110,042 |
| National accounts..... | 4,961 | 35,438 | 19,110 | 17,275 | 4,397 | 40,191 | 14,024 | 19,215 | 3,877 | 40,399 | 44,588 |
| Construction..... | 49,784 | 33,653 | 22,912 | 23,576 | 42,408 | 31,509 | 20,014 | 20,245 | 44,276 | 83,437 | 73,917 |
| Casualty..... | 30,638 | 26,973 | 28,599 | 30,563 | 24,939 | 30,134 | 27,389 | 28,493 | 26,617 | 57,611 | 55,073 |
| Travel and accident..... | 20,294 | 22,836 | 13,751 | 17,404 | 19,284 | 21,501 | 14,486 | 19,673 | 15,272 | 43,130 | 40,785 |
| Lenders products..... | 20,477 | 22,415 | 21,543 | 22,551 | 21,526 | 21,074 | 30,942 | 23,452 | 22,208 | 42,892 | 42,600 |
| Healthcare..... | 7,959 | 10,635 | 9,303 | 8,810 | 8,422 | 9,117 | 10,290 | 8,705 | 9,989 | 18,594 | 17,539 |
| Surety..... | 12,723 | 12,134 | 12,734 | 10,389 | 9,618 | 9,734 | 7,918 | 11,128 | 7,012 | 24,857 | 19,352 |
| Other (2)..... | 12,957 | 26,222 | 15,549 | 19,889 | 10,864 | 19,764 | 15,544 | 13,398 | 8,907 | 39,179 | 30,628 |
| Total | \$464,584 | \$490,680 | \$360,739 | \$472,986 | \$438,263 | \$449,291 | \$351,841 | \$431,361 | \$422,837 | \$955,264 | \$887,554 |
| Net premiums earned | | | | | | | | | | | |
| Property, energy, marine and aviation..... | \$77,590 | \$78,494 | \$79,979 | \$92,288 | \$76,644 | \$73,599 | \$77,811 | \$82,301 | \$80,818 | \$156,084 | \$150,243 |
| Programs..... | 80,589 | 73,998 | 75,085 | 73,561 | 71,934 | 67,018 | 69,462 | 68,404 | 68,381 | 154,587 | 138,952 |
| Professional liability..... | 68,017 | 63,256 | 62,467 | 64,403 | 57,767 | 67,400 | 63,152 | 69,900 | 63,642 | 131,273 | 125,167 |
| Executive assurance..... | 60,856 | 58,766 | 56,782 | 56,783 | 60,488 | 54,570 | 55,270 | 51,675 | 54,958 | 119,622 | 115,058 |
| National accounts..... | 18,415 | 19,136 | 19,642 | 18,166 | 21,162 | 17,360 | 18,595 | 16,810 | 16,810 | 37,551 | 39,328 |
| Construction..... | 31,692 | 31,808 | 28,569 | 28,590 | 27,214 | 28,391 | 26,837 | 25,664 | 27,982 | 63,500 | 55,605 |
| Casualty..... | 28,102 | 29,065 | 28,093 | 30,305 | 24,829 | 28,427 | 25,893 | 27,503 | 28,148 | 57,167 | 53,256 |
| Travel and accident..... | 20,661 | 16,713 | 15,840 | 19,051 | 19,455 | 15,599 | 15,705 | 17,418 | 17,590 | 37,374 | 35,054 |
| Lenders products..... | 21,411 | 32,153 | 18,796 | 18,293 | 19,966 | 18,236 | 19,617 | 17,593 | 17,153 | 53,564 | 38,202 |
| Healthcare..... | 9,077 | 8,898 | 8,825 | 9,340 | 9,089 | 8,652 | 9,701 | 9,738 | 10,340 | 17,975 | 17,741 |
| Surety..... | 10,798 | 10,560 | 11,847 | 10,091 | 9,402 | 9,779 | 9,810 | 9,876 | 8,023 | 21,358 | 19,181 |
| Other (2)..... | 19,386 | 18,893 | 15,812 | 15,623 | 15,865 | 14,758 | 13,657 | 13,214 | 11,628 | 38,279 | 30,623 |
| Total | \$446,594 | \$441,740 | \$422,667 | \$437,970 | \$410,819 | \$407,591 | \$404,275 | \$411,881 | \$405,473 | \$888,334 | \$818,410 |

(1) The acquisition expense ratio is adjusted to include certain fee income.

(2) Includes excess workers' compensation, employer's liability, alternative markets and accident and health business.

Arch Capital Group Ltd. and Subsidiaries
Segment Information -- Reinsurance Segment
(U.S. dollars in thousands)

| | Three Months Ended | | | | Six Months Ended | | | |
|--|--------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | June 30, | | | | June 30, | | | |
| | 2012 | | 2011 | | 2012 | | 2011 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Net premiums written | | | | | | | | |
| Casualty (1)..... | \$43,702 | 12.3 | \$40,755 | 15.2 | \$127,662 | 17.5 | \$112,116 | 19.2 |
| Property excluding property catastrophe (2)..... | 65,734 | 18.5 | 53,938 | 20.1 | 141,227 | 19.4 | 125,088 | 21.4 |
| Other specialty (3)..... | 72,261 | 20.3 | 43,937 | 16.4 | 167,723 | 23.0 | 121,582 | 20.8 |
| Property catastrophe..... | 129,224 | 36.3 | 108,235 | 40.3 | 215,798 | 29.6 | 175,196 | 30.0 |
| Marine and aviation..... | 18,842 | 5.3 | 19,978 | 7.4 | 44,459 | 6.1 | 44,142 | 7.6 |
| Other..... | 25,886 | 7.3 | 1,437 | 0.6 | 31,711 | 4.4 | 5,143 | 1.0 |
| Total | <u>\$355,649</u> | <u>100.0</u> | <u>\$268,280</u> | <u>100.0</u> | <u>\$728,580</u> | <u>100.0</u> | <u>\$583,267</u> | <u>100.0</u> |
| Net premiums earned | | | | | | | | |
| Casualty (1)..... | \$48,565 | 17.3 | \$51,493 | 22.2 | \$94,508 | 18.2 | \$99,987 | 21.8 |
| Property excluding property catastrophe (2)..... | 58,720 | 21.0 | 57,524 | 24.8 | 120,352 | 23.2 | 120,530 | 26.3 |
| Other specialty (3)..... | 78,207 | 27.9 | 40,511 | 17.5 | 124,355 | 24.0 | 79,480 | 17.3 |
| Property catastrophe..... | 68,992 | 24.6 | 59,788 | 25.8 | 130,855 | 25.2 | 111,430 | 24.3 |
| Marine and aviation..... | 19,200 | 6.9 | 21,093 | 9.1 | 40,649 | 7.8 | 42,719 | 9.3 |
| Other..... | 6,378 | 2.3 | 1,651 | 0.6 | 7,915 | 1.6 | 4,018 | 1.0 |
| Total | <u>\$280,062</u> | <u>100.0</u> | <u>\$232,060</u> | <u>100.0</u> | <u>\$518,634</u> | <u>100.0</u> | <u>\$458,164</u> | <u>100.0</u> |
| Net premiums written | | | | | | | | |
| Pro rata..... | \$144,133 | 40.5 | \$105,036 | 39.2 | \$268,879 | 36.9 | \$210,528 | 36.1 |
| Excess of loss..... | 211,516 | 59.5 | 163,244 | 60.8 | 459,701 | 63.1 | 372,739 | 63.9 |
| Total | <u>\$355,649</u> | <u>100.0</u> | <u>\$268,280</u> | <u>100.0</u> | <u>\$728,580</u> | <u>100.0</u> | <u>\$583,267</u> | <u>100.0</u> |
| Net premiums earned | | | | | | | | |
| Pro rata..... | \$124,941 | 44.6 | \$103,967 | 44.8 | \$224,866 | 43.4 | \$210,620 | 46.0 |
| Excess of loss..... | 155,121 | 55.4 | 128,093 | 55.2 | 293,768 | 56.6 | 247,544 | 54.0 |
| Total | <u>\$280,062</u> | <u>100.0</u> | <u>\$232,060</u> | <u>100.0</u> | <u>\$518,634</u> | <u>100.0</u> | <u>\$458,164</u> | <u>100.0</u> |
| Net premiums written by client location | | | | | | | | |
| United States..... | \$218,624 | 61.5 | \$169,116 | 63.0 | \$392,624 | 53.9 | \$336,331 | 57.7 |
| Europe..... | 74,762 | 21.0 | 50,382 | 18.8 | 215,120 | 29.5 | 176,082 | 30.2 |
| Bermuda..... | 4,597 | 1.3 | 22,786 | 8.5 | 34,197 | 4.7 | 27,165 | 4.7 |
| Other..... | 57,666 | 16.2 | 25,996 | 9.7 | 86,639 | 11.9 | 43,689 | 7.4 |
| Total | <u>\$355,649</u> | <u>100.0</u> | <u>\$268,280</u> | <u>100.0</u> | <u>\$728,580</u> | <u>100.0</u> | <u>\$583,267</u> | <u>100.0</u> |
| Net premiums written by underwriting location | | | | | | | | |
| Bermuda..... | \$217,283 | 61.1 | \$175,018 | 65.2 | \$373,239 | 51.2 | \$321,614 | 55.1 |
| United States..... | 82,786 | 23.3 | 76,609 | 28.6 | 212,245 | 29.1 | 190,365 | 32.6 |
| Other..... | 55,580 | 15.6 | 16,653 | 6.2 | 143,096 | 19.7 | 71,288 | 12.3 |
| Total | <u>\$355,649</u> | <u>100.0</u> | <u>\$268,280</u> | <u>100.0</u> | <u>\$728,580</u> | <u>100.0</u> | <u>\$583,267</u> | <u>100.0</u> |

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

(2) Includes facultative business.

(3) Includes U.K. motor, trade credit, surety, workers' compensation catastrophe, accident and health and other.

Arch Capital Group Ltd. and Subsidiaries
Segment Information -- Reinsurance Segment
(U.S. dollars in thousands)

| | Three Months Ended | | | | | | | | Six Months Ended | | |
|--|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| Gross premiums written..... | \$376,981 | \$379,976 | \$161,904 | \$227,837 | \$277,766 | \$331,013 | \$139,015 | \$208,770 | \$203,695 | \$756,957 | \$608,779 |
| Net premiums written | 355,649 | 372,931 | 150,385 | 218,395 | 268,280 | 314,987 | 131,070 | 204,756 | 201,421 | 728,580 | 583,267 |
| Net premiums earned | \$280,062 | \$238,572 | \$250,525 | \$244,079 | \$232,060 | \$226,104 | \$227,871 | \$215,528 | \$217,538 | \$518,634 | \$458,164 |
| Fee income..... | 178 | 13 | 253 | 187 | 82 | 37 | 2,053 | 10 | 9 | 191 | 119 |
| Losses and loss adjustment expenses | (109,277) | (92,043) | (95,298) | (133,376) | (129,980) | (196,157) | (102,478) | (93,782) | (87,851) | (201,320) | (326,137) |
| Acquisition expenses, net | (52,231) | (45,092) | (49,364) | (43,442) | (44,096) | (47,339) | (41,722) | (43,970) | (42,116) | (97,323) | (91,435) |
| Other operating expenses | (29,140) | (26,123) | (25,707) | (22,340) | (23,671) | (21,227) | (29,693) | (20,355) | (20,215) | (55,263) | (44,898) |
| Underwriting income (loss)..... | <u>\$89,592</u> | <u>\$75,327</u> | <u>\$80,409</u> | <u>\$45,108</u> | <u>\$34,395</u> | <u>(\$38,582)</u> | <u>\$56,031</u> | <u>\$57,431</u> | <u>\$67,365</u> | <u>\$164,919</u> | <u>(\$4,187)</u> |
| Underwriting Ratios | | | | | | | | | | | |
| Loss ratio | 39.0% | 38.6% | 38.0% | 54.6% | 56.0% | 86.8% | 45.0% | 43.5% | 40.4% | 38.8% | 71.2% |
| Acquisition expense ratio..... | 18.6% | 18.9% | 19.7% | 17.8% | 19.0% | 20.9% | 18.3% | 20.4% | 19.4% | 18.8% | 20.0% |
| Other operating expense ratio | 10.4% | 10.9% | 10.3% | 9.2% | 10.2% | 9.4% | 13.0% | 9.4% | 9.3% | 10.7% | 9.8% |
| Combined ratio | <u>68.0%</u> | <u>68.4%</u> | <u>68.0%</u> | <u>81.6%</u> | <u>85.2%</u> | <u>117.1%</u> | <u>76.3%</u> | <u>73.3%</u> | <u>69.1%</u> | <u>68.3%</u> | <u>101.0%</u> |
| Net premiums written | | | | | | | | | | | |
| Casualty (1)..... | \$43,702 | \$83,960 | \$34,968 | \$34,873 | \$40,755 | \$71,361 | \$32,274 | \$38,276 | \$43,642 | \$127,662 | \$112,116 |
| Property excluding property catastrophe (2)..... | 65,734 | 75,493 | 36,430 | 64,495 | 53,938 | 71,150 | 46,835 | 70,149 | 57,880 | 141,227 | 125,088 |
| Other specialty (3)..... | 72,261 | 95,462 | 48,555 | 40,882 | 43,937 | 77,645 | 27,008 | 30,468 | 18,920 | 167,723 | 121,582 |
| Property catastrophe..... | 129,224 | 86,574 | 11,636 | 59,961 | 108,235 | 66,961 | 3,529 | 40,255 | 70,403 | 215,798 | 175,196 |
| Marine and aviation..... | 18,842 | 25,617 | 16,130 | 17,037 | 19,978 | 24,164 | 21,303 | 24,913 | 9,609 | 44,459 | 44,142 |
| Other..... | 25,886 | 5,825 | 2,666 | 1,147 | 1,437 | 3,706 | 121 | 695 | 967 | 31,711 | 5,143 |
| Total | <u>\$355,649</u> | <u>\$372,931</u> | <u>\$150,385</u> | <u>\$218,395</u> | <u>\$268,280</u> | <u>\$314,987</u> | <u>\$131,070</u> | <u>\$204,756</u> | <u>\$201,421</u> | <u>\$728,580</u> | <u>\$583,267</u> |
| Net premiums earned | | | | | | | | | | | |
| Casualty (1)..... | \$48,565 | \$45,943 | \$47,317 | \$49,066 | \$51,493 | \$48,494 | \$48,609 | \$52,792 | \$59,501 | \$94,508 | \$99,987 |
| Property excluding property catastrophe (2)..... | 58,720 | 61,632 | 60,607 | 62,565 | 57,524 | 63,006 | 70,744 | 66,438 | 65,742 | 120,352 | 120,530 |
| Other specialty (3)..... | 78,207 | 46,148 | 60,891 | 48,722 | 40,511 | 38,969 | 30,296 | 25,254 | 22,292 | 124,355 | 79,480 |
| Property catastrophe..... | 68,992 | 61,863 | 62,408 | 64,910 | 59,788 | 51,642 | 54,768 | 54,206 | 52,301 | 130,855 | 111,430 |
| Marine and aviation..... | 19,200 | 21,449 | 17,361 | 17,739 | 21,093 | 21,626 | 22,445 | 16,106 | 16,263 | 40,649 | 42,719 |
| Other..... | 6,378 | 1,537 | 1,941 | 1,077 | 1,651 | 2,367 | 1,009 | 732 | 1,439 | 7,915 | 4,018 |
| Total | <u>\$280,062</u> | <u>\$238,572</u> | <u>\$250,525</u> | <u>\$244,079</u> | <u>\$232,060</u> | <u>\$226,104</u> | <u>\$227,871</u> | <u>\$215,528</u> | <u>\$217,538</u> | <u>\$518,634</u> | <u>\$458,164</u> |

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

(2) Includes facultative business.

(3) Includes U.K. motor, trade credit, surety, workers' compensation catastrophe, accident and health and other.

Arch Capital Group Ltd. and Subsidiaries
Investment Information -- Investable Asset Summary, Investment Portfolio Metrics and Credit Quality Distribution
(U.S. dollars in thousands)

| | June 30, 2012 | | March 31, 2012 | | December 31, 2011 | | September 30, 2011 | | June 30, 2011 | |
|--|------------------|------|-------------------|------|----------------------|------|-----------------------|------|------------------|------|
| Investable assets: | | | | | | | | | | |
| Fixed maturities available for sale, at fair value..... | \$9,556,326 | 75% | \$9,221,145 | 74% | \$9,375,604 | 76% | \$9,529,834 | 78% | \$9,247,002 | 77% |
| Fixed maturities, at fair value (1)..... | 242,735 | 2% | 250,805 | 2% | 147,779 | 1% | 122,866 | 1% | 102,897 | 1% |
| Fixed maturities pledged under securities lending agreements, at fair value (2)..... | 74,032 | 1% | 50,813 | 0% | 56,393 | 1% | 72,399 | 1% | 150,501 | 1% |
| Total fixed maturities..... | 9,873,093 | 78% | 9,522,763 | 76% | 9,579,776 | 78% | 9,725,099 | 80% | 9,500,400 | 79% |
| Short-term investments available for sale, at fair value..... | 1,087,910 | 8% | 1,112,249 | 9% | 904,219 | 7% | 799,662 | 6% | 704,495 | 6% |
| Cash..... | 355,392 | 3% | 422,806 | 3% | 351,699 | 3% | 369,895 | 3% | 411,001 | 3% |
| Equity securities available for sale, at fair value..... | 260,864 | 2% | 318,181 | 3% | 299,584 | 2% | 273,213 | 2% | 320,434 | 3% |
| Equity securities, at fair value (1)..... | 23,118 | 0% | 52,766 | 0% | 87,403 | 1% | 100,719 | 1% | 152,844 | 1% |
| Other investments available for sale, at fair value..... | 381,576 | 3% | 357,992 | 3% | 238,111 | 2% | 229,974 | 2% | 299,845 | 2% |
| Other investments, at fair value (1)..... | 230,990 | 2% | 196,712 | 2% | 131,721 | 1% | 95,796 | 1% | 66,049 | 1% |
| TALF investments, at fair value (3)..... | 307,453 | 2% | 313,187 | 2% | 387,702 | 3% | 392,455 | 3% | 399,341 | 3% |
| Investments accounted for using the equity method..... | 331,601 | 3% | 347,273 | 3% | 380,507 | 3% | 383,543 | 3% | 399,968 | 3% |
| Securities sold but not yet purchased..... | (9,206) | 0% | (18,831) | 0% | (27,178) | 0% | (46,526) | 0% | (51,626) | 0% |
| Securities transactions entered into but not settled at the balance sheet date..... | (106,435) | (1%) | (121,435) | (1%) | (17,339) | 0% | (94,403) | (1%) | (104,856) | (1%) |
| Total investable assets..... | \$12,736,356 | 100% | \$12,503,663 | 100% | \$12,316,205 | 100% | \$12,229,427 | 100% | \$12,097,895 | 100% |
| Investment portfolio metrics (1): | | | | | | | | | | |
| Average effective duration (in years)..... | 3.01 | | 2.75 | | 2.99 | | 3.17 | | 2.87 | |
| Average S&P/Moody's credit ratings (4)..... | AA/Aa2 | | AA/Aa2 | | AA/Aa1 | | AA+/Aa1 | | AA+/Aa1 | |
| Imbedded book yield (before investment expenses)..... | 2.76% | | 2.76% | | 2.98% | | 3.09% | | 3.23% | |
| Credit quality distribution of total fixed maturities (5): | | | | | | | | | | |
| U.S. government and government agencies (6)..... | \$3,043,908 | 31% | \$2,850,031 | 30% | \$3,154,480 | 33% | \$2,968,250 | 30% | \$2,880,650 | 30% |
| AAA..... | 3,325,996 | 34% | 3,420,490 | 36% | 3,229,161 | 34% | 3,453,116 | 36% | 3,622,886 | 38% |
| AA..... | 1,505,032 | 15% | 1,383,663 | 14% | 1,425,249 | 15% | 1,531,869 | 16% | 1,194,430 | 13% |
| A..... | 1,028,772 | 10% | 917,925 | 10% | 884,957 | 9% | 754,421 | 8% | 765,831 | 8% |
| BBB..... | 428,200 | 4% | 398,645 | 4% | 412,566 | 4% | 555,023 | 6% | 472,491 | 5% |
| BB..... | 152,982 | 2% | 157,427 | 2% | 140,029 | 1% | 151,665 | 1% | 158,517 | 2% |
| B..... | 175,613 | 2% | 172,360 | 2% | 165,003 | 2% | 140,571 | 1% | 241,538 | 2% |
| Lower than B..... | 116,846 | 1% | 125,134 | 1% | 114,672 | 1% | 106,775 | 1% | 97,748 | 1% |
| Not rated..... | 95,744 | 1% | 97,088 | 1% | 53,659 | 1% | 63,409 | 1% | 66,309 | 1% |
| Total fixed maturities, at fair value..... | \$9,873,093 | 100% | \$9,522,763 | 100% | \$9,579,776 | 100% | \$9,725,099 | 100% | \$9,500,400 | 100% |

- (1) 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.
- (2) In securities lending transactions, the Company receives collateral in excess of the fair value of the fixed maturities and short-term investments pledged under securities lending. 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) The Company participates in the Federal Reserve's Term Asset-Backed Securities Loan Facility ("TALF"), which provides secured financing for asset-backed securities backed by certain types of consumer and small-business loans and legacy commercial mortgage-backed securities. TALF financing is non-recourse to the Company, is collateralized by the purchased securities and provides financing for the purchase price of the securities, less a 'haircut' that varies based on the type of collateral. The Company can deliver the collateralized securities to the Federal Reserve in full payment of the loan and is carrying the investments and borrowings at fair value.
- (4) 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").
- (5) 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.
- (6) Includes U.S. government-sponsored agency mortgage backed securities and agency commercial mortgage backed securities.

Arch Capital Group Ltd. and Subsidiaries
Investment Information -- Composition of Fixed Maturities and Analysis of Corporate Exposures
(U.S. dollars in thousands)

Composition of Fixed Maturities

The following table summarizes the Company's fixed maturities and fixed maturities pledged under securities lending agreements, excluding TALF investments, at June 30, 2012:

| | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses | Net Unrealized Gains (Losses) | Amortized Cost | Fair Value / Amortized Cost |
|---|--------------------|------------------------|-------------------------|-------------------------------|--------------------|-----------------------------|
| Corporates..... | \$2,467,217 | \$81,718 | (\$10,366) | \$71,352 | \$2,395,865 | 103.0% |
| Non-U.S. government-backed corporates..... | 219,004 | 10,317 | (1,167) | 9,150 | 209,854 | 104.4% |
| FDIC guaranteed corporates..... | 28,274 | 247 | - | 247 | 28,027 | 100.9% |
| U.S. government and government agencies..... | 1,380,074 | 29,797 | (1,872) | 27,925 | 1,352,149 | 102.1% |
| Agency mortgage-backed securities..... | 1,374,900 | 19,231 | (4,908) | 14,323 | 1,360,577 | 101.1% |
| Non-agency mortgage-backed securities..... | 295,208 | 4,512 | (13,378) | (8,866) | 304,074 | 97.1% |
| Agency commercial mortgage-backed securities..... | 288,934 | 9,864 | (1,105) | 8,759 | 280,175 | 103.1% |
| Non-agency commercial mortgage-backed securities..... | 672,392 | 21,821 | (1,307) | 20,514 | 651,878 | 103.1% |
| Municipal bonds..... | 1,542,262 | 67,946 | (1,541) | 66,405 | 1,475,857 | 104.5% |
| Non-U.S. government securities..... | 1,034,657 | 32,558 | (17,976) | 14,582 | 1,020,075 | 101.4% |
| Asset-backed securities..... | 570,171 | 17,294 | (8,579) | 8,715 | 561,456 | 101.6% |
| Total..... | <u>\$9,873,093</u> | <u>\$295,305</u> | <u>(\$62,199)</u> | <u>\$233,106</u> | <u>\$9,639,987</u> | <u>102.4%</u> |

Corporates (Excluding Guaranteed Amounts)

The following table summarizes the Company's corporate bonds by sector and by credit quality at June 30, 2012, excluding guaranteed amounts:

| | Estimated Fair Value | | |
|---|----------------------|------------------|------------------------|
| | Total | % of Asset Class | % of Investable Assets |
| Sector: | | | |
| Industrials..... | \$1,237,027 | 50.1% | 9.7% |
| Financials..... | 890,529 | 36.1% | 7.0% |
| Utilities..... | 99,050 | 4.0% | 0.8% |
| Foreign agencies..... | 3,562 | 0.1% | 0.0% |
| All other (1)..... | 237,049 | 59.8% | 1.9% |
| Total..... | <u>\$2,467,217</u> | <u>100.0%</u> | <u>19.4%</u> |
| Credit quality distribution (3): | | | |
| AAA..... | \$602,606 | 24.4% | 4.7% |
| AA..... | 361,201 | 14.6% | 2.8% |
| A..... | 750,155 | 30.4% | 5.9% |
| BBB..... | 360,736 | 14.6% | 2.8% |
| BB..... | 124,886 | 5.1% | 1.0% |
| B..... | 156,240 | 6.3% | 1.2% |
| Lower than B..... | 19,581 | 0.8% | 0.2% |
| Not rated..... | 91,812 | 3.8% | 0.7% |
| Total..... | <u>\$2,467,217</u> | <u>100.0%</u> | <u>19.4%</u> |

The following table summarizes the Company's top ten exposures to fixed income corporate issuers by fair value at June 30, 2012, excluding guaranteed amounts and covered bonds:

| Issuer | Estimated Fair Value | % of Asset Class | % of Investable Assets | Credit Rating (2) |
|-----------------------------------|----------------------|------------------|------------------------|-------------------|
| General Electric Co..... | \$45,395 | 1.8% | 0.4% | AA+/A1 |
| Caterpillar Inc..... | 33,511 | 1.4% | 0.3% | A/A2 |
| Abbey National Treasury Svcs..... | 31,810 | 1.3% | 0.2% | A/A2 |
| Wells Fargo & Company..... | 29,802 | 1.2% | 0.2% | A+/A2 |
| Total SA..... | 29,402 | 1.2% | 0.2% | AA-/Aa1 |
| Royal Dutch Shell PLC..... | 28,806 | 1.2% | 0.2% | AA/Aa1 |
| HSBC Holdings PLC..... | 27,565 | 1.1% | 0.2% | A/Baa1 |
| National Australia Bank Ltd..... | 27,279 | 1.1% | 0.2% | AA-/Aa2 |
| Coca-Cola Company..... | 26,988 | 1.1% | 0.2% | A+/Aa3 |
| Verizon Communications Inc..... | 25,843 | 1.0% | 0.2% | A-/A3 |
| Total..... | <u>\$306,401</u> | <u>12.4%</u> | <u>2.4%</u> | |

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

(2) Ratings as assigned by S&P and Moody's, respectively.

(3) 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.

Arch Capital Group Ltd. and Subsidiaries
Investment Information -- Mortgage Backed, Commercial Mortgage Backed and Asset Backed Securities
(U.S. dollars in thousands)

The following table provides information on the Company's mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) at June 30, 2012, excluding amounts guaranteed by the U.S. government:

| | 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 | | Re-REMICs | All Other | |
| Non-agency MBS: | 2003 | \$2,293 | AAA | \$2,326 | 101.4% | 0.0% | Wtd. average loan age (months) | 72 | 69 | 36 |
| | 2004 | 13,709 | BBB+ | 12,918 | 94.2% | 0.1% | Wtd. average life (months) (2) | 23 | 48 | 51 |
| | 2005 | 44,324 | B- | 39,893 | 90.0% | 0.3% | Wtd. average loan-to-value % (3) | 69.9% | 69.0% | 64.7% |
| | 2006 | 53,445 | BBB- | 49,370 | 92.4% | 0.4% | Total delinquencies (4) | 19.7% | 21.7% | 3.6% |
| | 2007 | 41,731 | CCC- | 40,173 | 96.3% | 0.3% | Current credit support % (5) | 43.3% | 14.4% | 28.2% |
| | 2008 | 6,747 | CCC | 6,613 | 98.0% | 0.1% | | | | |
| | 2009 (6) | 30,151 | AAA | 32,861 | 109.0% | 0.3% | (1) Loans defeased with government/agency obligations represented approximately 1% of the collateral underlying the Company's CMBS holdings. | | | |
| | 2010 (6) | 28,899 | AAA | 28,027 | 97.0% | 0.2% | (2) The weighted average life for MBS is based on the interest rates in effect at June 30, 2012. The weighted average life for CMBS reflects the average life of the collateral underlying the Company's CMBS holdings. | | | |
| | 2012 (6) | 82,775 | AAA | 83,027 | 100.3% | 0.7% | (3) The range of loan-to-values on MBS is 30% to 86%, while the range of loan-to-values on CMBS is 27% to 105%. | | | |
| Total non-agency MBS | | <u>\$304,074</u> | BBB+ | <u>\$295,208</u> | 97.1% | <u>2.3%</u> | (4) Total delinquencies includes 60 days and over. | | | |
| Non-agency CMBS: | 1998 | \$3,452 | AAA | \$3,471 | 100.6% | 0.0% | (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. | | | |
| | 2002 | 68 | AAA | 69 | 101.5% | 0.0% | (6) Primarily represents Re-REMICs with an average credit quality of "AAA" from Fitch Ratings. | | | |
| | 2004 | 27,556 | AAA | 27,375 | 99.3% | 0.2% | | | | |
| | 2005 | 40,271 | AA+ | 40,297 | 100.1% | 0.3% | | | | |
| | 2006 | 5,160 | A- | 5,028 | 97.4% | 0.0% | | | | |
| | 2007 | 32,415 | A | 34,358 | 106.0% | 0.3% | | | | |
| | 2008 | 616 | AAA | 616 | 100.0% | 0.0% | | | | |
| | 2010 | 238,680 | AAA | 247,624 | 103.7% | 1.9% | | | | |
| | 2011 | 156,477 | AAA | 165,444 | 105.7% | 1.3% | | | | |
| | 2012 | 147,183 | AAA | 148,110 | 100.6% | 1.2% | | | | |
| Total non-agency CMBS | | <u>\$651,878</u> | AAA | <u>\$672,392</u> | 103.1% | <u>5.3%</u> | | | | |

The following table provides information on the Company's asset-backed securities (ABS) June 30, 2012:

| Sector: | Amortized Cost | Average Credit Quality | Estimated Fair Value | | |
|--------------------------|------------------|------------------------|----------------------|---------------------|------------------------|
| | | | Total | % of Amortized Cost | % of Investable Assets |
| Credit cards (1) | \$175,092 | AA+ | \$178,077 | 101.7% | 1.4% |
| Autos (2) | 140,224 | AAA | 139,531 | 99.5% | 1.1% |
| Rate reduction bonds (3) | 80,383 | AAA | 84,014 | 104.5% | 0.7% |
| Equipment (4) | 58,961 | AA- | 60,182 | 102.1% | 0.5% |
| U.K. securitized (5) | 31,874 | AAA | 31,779 | 99.7% | 0.2% |
| Student loans (6) | 6,636 | AAA | 6,773 | 102.1% | 0.1% |
| Other | 55,122 | AA | 55,486 | 100.7% | 0.4% |
| | 548,292 | AA | 555,842 | 101.4% | 4.4% |
| Home equity (7) | \$1,676 | AAA | \$1,454 | 86.8% | 0.0% |
| | 1,085 | A | 991 | 91.3% | 0.0% |
| | 2,296 | BBB | 2,446 | 106.5% | 0.0% |
| | 3,254 | BB to B | 3,330 | 102.3% | 0.0% |
| | 4,788 | CCC to C | 6,028 | 125.9% | 0.0% |
| | 65 | D | 80 | 123.1% | 0.0% |
| | 13,164 | B+ | 14,329 | 108.8% | 0.1% |
| Total ABS | <u>\$561,456</u> | AA+ | <u>\$570,171</u> | 101.6% | <u>4.5%</u> |

The effective duration of the total ABS was 1.5 years at June 30, 2012.

- (1) The weighted average credit support % on credit cards is 23.9%.
- (2) The weighted average credit support % on autos is 22.0%.
- (3) The weighted average credit support % on rate reduction bonds is 6.6%.
- (4) The weighted average credit support % on equipment is 5.6%.
- (5) The weighted average credit support % on U.K. securitized is 18.0%.
- (6) The weighted average credit support % on student loans is 22.7%.
- (7) The weighted average credit support % on home equity is 22.8%.

The Company's investment portfolio included \$61.0 million par in sub-prime securities at June 30, 2012, with an estimated fair value of \$40.5 million and an average credit quality of "A+/B1." Such amounts were primarily in the home equity and CMO sectors with the balance in SBA Loan and other ABS sectors. In addition, the portfolio of collateral backing the Company's securities lending program contains approximately \$6 million estimated fair value of sub-prime securities with an average credit quality of "CCC/Caa2."

Arch Capital Group Ltd. and Subsidiaries
Investment Information -- Bank Loan Investments
(U.S. dollars in thousands)

Bank Loan Investments

The Company's investments in bank loans are included in the following categories at June 30, 2012:

| | Fair Value | % of Asset Class | % of Investable Assets |
|---|------------------|---------------------|---------------------------|
| Composition: | | | |
| Investment funds accounted for using the equity method..... | \$114,572 | 33.7% | 0.9% |
| Corporate bonds..... | 88,637 | 26.0% | 0.7% |
| Other investments..... | 137,214 | 40.3% | 1.1% |
| Total..... | <u>\$340,423</u> | <u>100.0%</u> | <u>2.7%</u> |
| Currency: | | | |
| U.S.-denominated..... | \$250,907 | 73.7% | 2.0% |
| Euro-denominated..... | 89,516 | 26.3% | 0.7% |
| Total..... | <u>\$340,423</u> | <u>100.0%</u> | <u>2.7%</u> |
| Sector: | | | |
| Consumer cyclical..... | \$70,191 | 20.6% | 0.6% |
| Industrials..... | 48,686 | 14.3% | 0.4% |
| Media..... | 45,920 | 13.5% | 0.4% |
| Consumer non-cyclical..... | 31,744 | 9.3% | 0.2% |
| Basic materials..... | 30,310 | 8.9% | 0.2% |
| Utilities..... | 10,966 | 3.2% | 0.1% |
| All other..... | 102,606 | 30.2% | 0.8% |
| Total..... | <u>\$340,423</u> | <u>100.0%</u> | <u>2.7%</u> |
| Weighted average rating factor (Moody's)..... | B2 | | |

Arch Capital Group Ltd. and Subsidiaries
Investment Information – Eurozone Investments
(U.S. dollars in thousands)

Composition of Eurozone Investments

The fair value of the Company's Eurozone investments are as follows at June 30, 2012:

| Country (1): | Sovereign (2) | Financial Corporates | Other Corporates | Covered Bonds (3) | Bank Loans (4) | Equities and Other | Total |
|------------------------|----------------------|-----------------------------|-------------------------|--------------------------|-----------------------|---------------------------|------------------|
| Germany..... | \$159,511 | \$1,271 | \$22,482 | \$0 | \$22,726 | \$1,536 | \$207,526 |
| Netherlands..... | 7,382 | 31,873 | 30,925 | 30,710 | 6,692 | 16,053 | 123,635 |
| France..... | - | 992 | 32,519 | 40,345 | 4,308 | 8,639 | 86,803 |
| Finland..... | 105,015 | 247 | - | - | - | - | 105,262 |
| Supranational (5)..... | 45,426 | - | - | - | - | - | 45,426 |
| Spain..... | - | - | 687 | 12,240 | 4,998 | 213 | 18,138 |
| Luxembourg..... | - | - | 4,237 | - | 2,335 | 23 | 6,595 |
| Italy..... | 5,986 | - | 3,417 | - | 959 | 114 | 10,476 |
| Belgium..... | 3,905 | - | 7,049 | - | - | - | 10,954 |
| Ireland..... | - | 633 | - | - | - | 1,682 | 2,315 |
| Portugal..... | - | - | 627 | - | - | - | 627 |
| Total..... | \$327,225 | \$35,016 | \$101,943 | \$83,295 | \$42,018 | \$28,260 | \$617,757 |

(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 Eurozone investments from Austria, Cyprus, Estonia, Greece, Malta, Slovakia or Slovenia at June 30, 2012.

(2) Sovereign includes securities issued and/or guaranteed by Eurozone governments.

(3) Securities issued by Eurozone banks where the security is backed by a separate group of loans.

(4) Included in "corporate bonds" in the Bank Loan Investments table on page 17.

(5) 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 common shareholders, which is defined as net income available to 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 common shareholders is a "non-GAAP financial measure" as defined in Regulation G. The reconciliation of such measure to net income available to 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 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 common shareholders.

The Company believes that showing net income available to 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 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.

Arch Capital Group Ltd. and Subsidiaries
Operating Income Reconciliation
(U.S. dollars in thousands, except share data)

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

| | Three Months Ended | | | | | | Six Months Ended | | | | |
|--|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| After-tax operating income available to common shareholders..... | \$141,400 | \$113,660 | \$128,891 | \$107,176 | \$59,739 | \$7,576 | \$131,277 | \$130,659 | \$130,873 | \$255,060 | \$67,315 |
| Net realized gains, net of tax..... | 33,275 | 40,873 | 13,464 | 28,458 | 44,799 | 21,585 | 71,821 | 68,611 | 61,119 | 74,148 | 66,384 |
| Net impairment losses recognized in earnings, net of tax..... | (1,951) | (1,023) | (1,959) | (2,739) | (1,684) | (2,680) | (3,230) | (2,075) | (4,410) | (2,974) | (4,364) |
| Equity in net income (loss) of investment funds accounted for using the equity method, net of tax..... | 7,787 | 24,826 | (14,702) | (30,549) | 5,973 | 29,673 | 22,990 | 9,708 | (348) | 32,613 | 35,646 |
| Net foreign exchange gains (losses), net of tax..... | 32,108 | (20,541) | 13,177 | 59,948 | (18,685) | (37,142) | 6,581 | (65,346) | 48,447 | 11,567 | (55,827) |
| Net income available to common shareholders..... | <u>\$212,619</u> | <u>\$157,795</u> | <u>\$138,871</u> | <u>\$162,294</u> | <u>\$90,142</u> | <u>\$19,012</u> | <u>\$229,439</u> | <u>\$141,557</u> | <u>\$235,681</u> | <u>\$370,414</u> | <u>\$109,154</u> |
| Diluted per common share results: | | | | | | | | | | | |
| After-tax operating income available to common shareholders..... | \$1.02 | \$0.82 | \$0.94 | \$0.78 | \$0.43 | \$0.06 | \$0.87 | \$0.85 | \$0.82 | \$1.85 | \$0.48 |
| Net realized gains, net of tax..... | 0.24 | 0.30 | 0.10 | 0.21 | 0.32 | 0.15 | 0.48 | 0.45 | 0.38 | 0.54 | 0.48 |
| Net impairment losses recognized in earnings, net of tax..... | (0.01) | (0.01) | (0.01) | (0.02) | (0.01) | (0.02) | (0.02) | (0.01) | (0.03) | (0.02) | (0.03) |
| Equity in net income (loss) of investment funds accounted for using the equity method, net of tax..... | 0.06 | 0.18 | (0.11) | (0.22) | 0.04 | 0.21 | 0.15 | 0.06 | 0.00 | 0.23 | 0.25 |
| Net foreign exchange gains (losses), net of tax..... | 0.23 | (0.15) | 0.09 | 0.43 | (0.13) | (0.26) | 0.05 | (0.43) | 0.30 | 0.08 | (0.40) |
| Net income available to common shareholders..... | <u>\$1.54</u> | <u>\$1.14</u> | <u>\$1.01</u> | <u>\$1.18</u> | <u>\$0.65</u> | <u>\$0.14</u> | <u>\$1.53</u> | <u>\$0.92</u> | <u>\$1.47</u> | <u>\$2.68</u> | <u>\$0.78</u> |
| Weighted average common shares and common share equivalents outstanding -- diluted..... | 138,211,736 | 137,814,906 | 137,473,670 | 137,140,929 | 137,975,599 | 140,460,516 | 150,306,429 | 153,546,027 | 159,795,909 | 138,017,490 | 139,234,931 |

Arch Capital Group Ltd. and Subsidiaries
Share Repurchase Activity
(U.S. dollars in thousands, except share data)

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

| | Three Months Ended | | | | | | | | Cumulative June 30, 2012 | |
|-------------------------------------|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|--------------------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | | June 30, 2010 |
| Effect of share repurchases: | | | | | | | | | | |
| Aggregate cost of | | | | | | | | | | |
| shares repurchased..... | \$0 | \$0 | \$3 | \$20,833 | \$29,552 | \$237,173 | \$258,151 | \$53,398 | \$269,054 | \$2,558,033 |
| Shares repurchased..... | - | - | 100 | 655,772 | 881,961 | 8,062,383 | 8,679,051 | 2,043,195 | 10,932,681 | 104,758,218 |
| Average price per share | | | | | | | | | | |
| repurchased..... | - | - | \$31.51 | \$31.77 | \$33.51 | \$29.42 | \$29.74 | \$26.13 | \$24.61 | \$24.42 |
| Average book value per | | | | | | | | | | |
| common share (1)..... | <u>\$33.89</u> | <u>\$32.55</u> | <u>\$31.34</u> | <u>\$30.81</u> | <u>\$30.39</u> | <u>\$29.90</u> | <u>\$29.61</u> | <u>\$28.30</u> | <u>\$26.25</u> | |
| Average repurchase | | | | | | | | | | |
| price-to-book multiple..... | <u>-</u> | <u>-</u> | <u>1.01x</u> | <u>1.03x</u> | <u>1.10x</u> | <u>0.98x</u> | <u>1.00x</u> | <u>0.92x</u> | <u>0.94x</u> | |
| Remaining share repurchase | | | | | | | | | | |
| authorization (2)..... | <u>\$941,967</u> | | | | | | | | | |

(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 31, 2012.

Arch Capital Group Ltd. and Subsidiaries
Annualized Operating Return on Average Common Equity
(U.S. dollars in thousands)

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

| | Three Months Ended | | | | | | | | Six Months Ended | | |
|---|--------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|------------------|------------------|
| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 | June 30, 2012 | June 30, 2011 |
| After-tax operating income available to common shareholders..... | \$141,400 | \$113,660 | \$128,891 | \$107,176 | \$59,739 | \$7,576 | \$131,277 | \$130,659 | \$130,873 | \$255,060 | \$67,315 |
| Annualized after-tax operating income available to common shareholders (a)..... | \$565,600 | \$454,640 | \$515,564 | \$428,704 | \$238,956 | \$30,304 | \$525,108 | \$522,636 | \$523,492 | \$510,120 | \$134,630 |
| Beginning common shareholders' equity..... | \$4,514,456 | \$4,267,074 | \$4,110,899 | \$4,078,030 | \$3,964,035 | \$4,151,786 | \$4,354,905 | \$4,035,011 | \$4,017,074 | \$4,267,074 | \$4,151,786 |
| Ending common shareholders' equity..... | 4,695,316 | 4,514,456 | 4,267,074 | 4,110,899 | 4,078,030 | 3,964,035 | 4,151,786 | 4,354,905 | 4,035,011 | 4,695,316 | 4,078,030 |
| Average common shareholders' equity (b)..... | \$4,604,886 | \$4,390,765 | \$4,188,987 | \$4,094,465 | \$4,021,033 | \$4,057,911 | \$4,253,346 | \$4,194,958 | \$4,026,043 | \$4,481,195 | \$4,114,908 |
| Annualized operating return on average common equity (a)/(b)..... | 12.3% | 10.4% | 12.3% | 10.5% | 5.9% | 0.7% | 12.3% | 12.5% | 13.0% | 11.4% | 3.3% |

Arch Capital Group Ltd. and Subsidiaries
Capital Structure
(U.S. dollars in thousands, except share data)

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

| | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Debt: | | | | | | | | | |
| Senior notes, due May 1, 2034 (7.35%)..... | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 |
| Revolving credit agreement borrowings, due August 18, 2014 (variable)..... | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 125,000 | 125,000 |
| Total debt..... | \$400,000 | \$400,000 | \$400,000 | \$400,000 | \$400,000 | \$400,000 | \$400,000 | \$425,000 | \$425,000 |
| Shareholders' Equity | | | | | | | | | |
| Series A non-cumulative preferred shares (8.0%) (1)..... | \$0 | \$200,000 | \$200,000 | \$200,000 | \$200,000 | \$200,000 | \$200,000 | \$200,000 | \$200,000 |
| Series B non-cumulative preferred shares (7.875%) (1)..... | - | 125,000 | 125,000 | 125,000 | 125,000 | 125,000 | 125,000 | 125,000 | 125,000 |
| Series C non-cumulative preferred shares (6.75%) (1)..... | 325,000 | - | - | - | - | - | - | - | - |
| Preferred shareholders' equity | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Common shareholders' equity (a)..... | 4,695,316 | 4,514,456 | 4,267,074 | 4,110,899 | 4,078,030 | 3,964,035 | 4,151,786 | 4,354,905 | 4,035,011 |
| Total shareholders' equity..... | \$5,020,316 | \$4,839,456 | \$4,592,074 | \$4,435,899 | \$4,403,030 | \$4,289,035 | \$4,476,786 | \$4,679,905 | \$4,360,011 |
| Total capital..... | \$5,420,316 | \$5,239,456 | \$4,992,074 | \$4,835,899 | \$4,803,030 | \$4,689,035 | \$4,876,786 | \$5,104,905 | \$4,785,011 |
| TALF non-recourse borrowings, at market value, due between 2012 to 2015 (various) (2)..... | 235,818 | 239,551 | 310,486 | 314,137 | 318,441 | 322,222 | 325,770 | 331,797 | 336,213 |
| Total capital and TALF non-recourse borrowings..... | \$5,656,134 | \$5,479,007 | \$5,302,560 | \$5,150,036 | \$5,121,471 | \$5,011,257 | \$5,202,556 | \$5,436,702 | \$5,121,224 |
| Common shares outstanding, net of treasury shares (b)..... | 136,291,652 | 135,441,687 | 134,358,345 | 133,005,465 | 132,771,524 | 131,850,639 | 139,632,225 | 147,676,113 | 148,891,710 |
| Book value per common share (3) (a)/(b)..... | \$34.45 | \$33.33 | \$31.76 | \$30.91 | \$30.71 | \$30.06 | \$29.73 | \$29.49 | \$27.10 |
| Leverage ratios: | | | | | | | | | |
| Senior notes/total capital..... | 5.5% | 5.7% | 6.0% | 6.2% | 6.2% | 6.4% | 6.2% | 5.9% | 6.3% |
| Revolving credit agreement borrowings/total capital..... | 1.8% | 1.9% | 2.0% | 2.1% | 2.1% | 2.1% | 2.1% | 2.4% | 2.6% |
| Debt/total capital..... | 7.4% | 7.6% | 8.0% | 8.3% | 8.3% | 8.5% | 8.2% | 8.3% | 8.9% |
| Preferred/total capital..... | 6.0% | 6.2% | 6.5% | 6.7% | 6.8% | 6.9% | 6.7% | 6.4% | 6.8% |
| Debt and preferred/total capital..... | 13.4% | 13.8% | 14.5% | 15.0% | 15.1% | 15.5% | 14.9% | 14.7% | 15.7% |

- (1) On April 2, 2012, ACGL closed an underwritten public offering of \$325 million of its Series C non-cumulative preferred shares (6.75%), with a liquidation preference of \$25 per share. All of ACGL's Series A and Series B shares were redeemed on May 2, 2012 at a redemption price of \$25 per share.
- (2) The Company participates in the Federal Reserve's Term Asset-Backed Securities Loan Facility ("TALF"), which provides secured financing for asset-backed securities backed by certain types of consumer and small-business loans and legacy commercial mortgage-backed securities. TALF financing is non-recourse to the Company, is collateralized by the purchased securities and provides financing for the purchase price of the securities, less a 'haircut' that varies based on the type of collateral. The Company can deliver the collateralized securities to the Federal Reserve in full defeasance of the loan. The Company excludes the TALF non-recourse borrowings from the calculations of leverage ratios and total capital due to the nature of the borrowings. If the TALF non-recourse borrowings were included in the leverage ratios and total capital, the ratio of debt to total capital would have been 11.2% and the ratio of debt and preferred to total capital would have been 17.0% at June 30, 2012.
- (3) Excludes the effects of stock options and restricted stock units outstanding. Amounts reflect the adoption of new accounting guidance concerning the accounting for costs associated with acquiring or renewing insurance contracts.