



NEWS RELEASE

## Arch Capital Group Ltd. Reports 2019 Fourth Quarter Results

2020-02-11

PEMBROKE, Bermuda--(BUSINESS WIRE)-- Arch Capital Group Ltd. (NASDAQ: AACL) announces its 2019 fourth quarter results. The results included:

- Net income available to Arch common shareholders of \$316.0 million, or \$0.76 per share, a 12.0% annualized return on average common equity, compared to \$126.1 million, or \$0.31 per share, for the 2018 fourth quarter;
- After-tax operating income available to Arch common shareholders, a non-GAAP measure, of \$308.4 million, or \$0.74 per share, an 11.7% annualized return on average common equity, compared to \$189.2 million, or \$0.46 per share, for the 2018 fourth quarter;
- Pre-tax current accident year catastrophic losses, net of reinsurance and reinstatement premiums<sup>(1)</sup> of \$30.4 million;
- Favorable development in prior year loss reserves, net of related adjustments<sup>(1)</sup> of \$54.7 million;
- Combined ratio excluding catastrophic activity and prior year development<sup>(1)</sup> of 81.4%;
- Book value per common share of \$26.42 at December 31, 2019, a 3.2% increase in the 2019 fourth quarter and a 22.8% increase for the year.

All earnings per share amounts discussed in this release are on a diluted basis. The following table summarizes the Company's underwriting results, both (i) on a consolidated basis and (ii) on a consolidated basis excluding the 'other' segment (i.e., results of Watford, as defined below):

(U.S. dollars in thousands)

	Consolidated			Consolidated Excluding 'Other' Segment (1)		
	Three Months Ended December 31,			Three Months Ended December 31,		
	2019	2018	% Change	2019	2018	% Change
Gross premiums written	\$ 1,942,151	\$ 1,694,918	14.6	\$ 1,842,071	\$ 1,599,085	15.2
Net premiums written	1,455,453	1,301,754	11.8	1,343,100	1,169,394	14.9
Net premiums earned	1,515,882	1,369,435	10.7	1,382,437	1,222,462	13.1
Underwriting income	251,421	166,955	50.6	288,672	188,986	52.7
<b>Underwriting Ratios</b>			<b>% Point Change</b>			<b>% Point Change</b>
Loss ratio	55.7%	60.4%	(4.7)	51.4%	57.1%	(5.7)
Underwriting expense ratio	28.1%	27.4%	0.7	28.2%	27.3%	0.9
Combined ratio	83.8%	87.8%	(4.0)	79.6%	84.4%	(4.8)
Combined ratio excluding catastrophic activity and prior year development				81.4%	80.8%	0.6

(1) Excluding the 'other' segment. See 'Comments on Regulation G' for further details.

Pursuant to GAAP, the Company consolidates the results of Watford Holdings Ltd. ("Watford") in its financial statements, although it only owns approximately 13% of Watford's outstanding common equity as of December 31, 2019. See 'Comments on Regulation G' for further details.

The following table summarizes the Company's consolidated financial data, including a reconciliation of net income or loss available to Arch common shareholders to after-tax operating income or loss available to Arch common shareholders and related diluted per share results:

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

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Net income available to Arch common shareholders	\$ 315,981	\$ 126,091	\$ 1,594,707	\$ 713,616
Net realized (gains) losses	(33,610)	77,037	(353,013)	297,755
Net impairment losses recognized in earnings	644	1,705	3,165	2,829
Equity in net (income) loss of investment funds accounted for using the equity method	(27,139)	6,882	(123,672)	(45,641)
Net foreign exchange (gains) losses	39,832	(20,869)	10,732	(59,890)
Transaction costs and other	9,081	3,548	14,444	12,377
Loss on redemption of preferred shares	—	—	—	2,710
Income tax expense (benefit) (1)	3,568	(5,223)	16,276	(14,566)
After-tax operating income available to Arch common shareholders	\$ 308,357	\$ 189,171	\$ 1,162,639	\$ 909,190
<b>Diluted per common share results:</b>				
Net income available to Arch common shareholders	\$ 0.76	\$ 0.31	\$ 3.87	\$ 1.73
Net realized (gains) losses	(0.08)	0.18	(0.87)	0.72
Net impairment losses recognized in earnings	0.00	0.00	0.01	0.01
Equity in net (income) loss of investment funds accounted for using the equity method	(0.07)	0.02	(0.30)	(0.11)
Net foreign exchange (gains) losses	0.10	(0.05)	0.03	(0.15)
Transaction costs and other	0.02	0.01	0.04	0.03
Loss on redemption of preferred shares	—	—	—	0.01
Income tax expense (benefit) (1)	0.01	(0.01)	0.04	(0.04)
After-tax operating income available to Arch common shareholders	\$ 0.74	\$ 0.46	\$ 2.82	\$ 2.20
Weighted average common shares and common share equivalents outstanding — diluted	414,124,920	410,112,097	411,609,478	412,906,478
Beginning common shareholders' equity	\$10,378,096	\$ 8,575,148	\$ 8,659,827	\$ 8,324,047

Ending common shareholders' equity	10,717,371	8,659,827	10,717,371	8,659,827
Average common shareholders' equity	\$10,547,734	\$ 8,617,488	\$ 9,688,599	\$ 8,491,937
Annualized return on average common equity	12.0%	5.9%	16.5%	8.4%
Annualized operating return on average common equity	11.7%	8.8%	12.0%	10.7%

(1) Income tax expense (benefit) on net realized gains or losses, net impairment losses recognized in earnings, equity in net income (loss) of investment funds accounted for using the equity method, net foreign exchange gains or losses, transaction costs and other and loss on redemption of preferred shares reflects the relative mix reported by jurisdiction and the varying tax rates in each jurisdiction.

Each line item in the table above reflects the impact of the Company's ownership of Watford's outstanding common equity. See 'Comments on Regulation G' for a discussion of non-GAAP financial measures.

## Segment Information

The following section provides analysis on the Company's 2019 fourth quarter performance by operating segment. For additional details regarding the Company's operating segments, please refer to the Company's Financial Supplement dated December 31, 2019. The Company's segment information includes the use of underwriting income (loss) and a combined ratio excluding catastrophic activity (if applicable for the segment) and prior year development. Such items are non-GAAP financial measures (see 'Comments on Regulation G' for further details).

The Company completed the acquisition of Barbican Group Holdings Ltd. ("Barbican") on November 29, 2019. As a result, the figures in the Insurance Segment and Reinsurance Segment sections below, which include only one month of underwriting activity from Barbican, were not significantly impacted by the acquisition. Going forward in 2020, the Company's segment results will fully reflect the contributions from the Barbican acquisition.

## Insurance Segment

(U.S. dollars in thousands)	Three Months Ended December 31,		
	2019	2018	% Change
Gross premiums written	\$ 1,040,240	\$ 832,762	24.9
Net premiums written	688,724	534,968	28.7
Net premiums earned	645,797	559,417	15.4
Underwriting income (loss)	\$ (13,881)	\$ (15,644)	n/m
<b>Underwriting Ratios</b>			<b>% Point Change</b>
Loss ratio	69.2%	71.5%	(2.3)
Underwriting expense ratio	32.9%	31.3%	1.6
Combined ratio	102.1%	102.8%	(0.7)
Catastrophic activity and prior year development:			

Current accident year catastrophic events, net of reinsurance and reinstatement premiums	0.9%	6.0%	(5.1)
Net (favorable) adverse development in prior year loss reserves, net of related adjustments	(0.4)%	(1.5)%	1.1
Combined ratio excluding catastrophic activity and prior year development (1)	101.6%	98.3%	3.3

(1) See 'Comments on Regulation G' for further discussion.

Gross premiums written by the insurance segment in the 2019 fourth quarter were 24.9% higher than in the 2018 fourth quarter while net premiums written were 28.7% higher than in the 2018 fourth quarter. Approximately one quarter of the increase from the 2018 fourth quarter resulted from new businesses acquired during 2019 or new business initiatives or product lines. The remaining growth came from expansion in existing products and accounts, and rate increases across most lines of business. Net premiums earned in the 2019 fourth quarter were 15.4% higher than in the 2018 fourth quarter, and reflect changes in net premiums written over the previous five quarters.

The 2019 fourth quarter loss ratio reflected 0.9 points of current year catastrophic activity, compared to 6.0 points in the 2018 fourth quarter, which was impacted by Hurricane Michael and the California wildfires. The 2019 fourth quarter loss ratio also reflected a higher level of large attritional losses than in the 2018 fourth quarter. Estimated net favorable development of prior year loss reserves, before related adjustments, reduced the loss ratio by 0.7 points in the 2019 fourth quarter, compared to 1.8 points in the 2018 fourth quarter.

The underwriting expense ratio was 32.9% in the 2019 fourth quarter, compared to 31.3% in the 2018 fourth quarter, with the increase primarily resulting from acquisitions made by the Company at the start of 2019.

## Reinsurance Segment

(U.S. dollars in thousands)	Three Months Ended December 31,		
	2019	2018	% Change
Gross premiums written	\$ 432,249	\$ 409,316	5.6
Net premiums written	338,869	325,048	4.3
Net premiums earned	388,985	348,453	11.6
Other underwriting income (loss)	2,051	(3,172)	n/m
Underwriting income (loss)	\$ 26,039	\$ (41,174)	n/m
<b>Underwriting Ratios</b>			<b>% Point Change</b>
Loss ratio	66.9%	83.8%	(16.9)
Underwriting expense ratio	26.9%	27.1%	(0.2)
Combined ratio	93.8%	110.9%	(17.1)
<b>Catastrophic activity and prior year development:</b>			
Current accident year catastrophic events, net of reinsurance and reinstatement premiums	6.4%	24.3%	(17.9)
Net (favorable) adverse development in prior year loss reserves, net of related adjustments	(4.9)%	(9.6)%	4.7
Combined ratio excluding catastrophic activity and prior year development (1)	92.3%	96.2%	(3.9)

(1) See 'Comments on Regulation G' for further discussion.

Gross premiums written by the reinsurance segment in the 2019 fourth quarter were 5.6% higher than in the 2018 fourth quarter, while net premiums written were 4.3% higher than in 2018 fourth quarter. The growth in net premiums written primarily reflected increases in property lines from new business and growth in existing accounts. In addition, the 2018 fourth quarter net premiums written included a higher level of reinstatement premiums, due to 2018 catastrophic events, as well as premium adjustments on a multi-year casualty contract. Net premiums earned by the reinsurance segment in the 2019 fourth quarter were 11.6% higher than in the 2018 fourth quarter, and reflect changes in net premiums written over the previous five quarters.

The 2019 fourth quarter loss ratio included 6.9 points of current year catastrophic activity, primarily related to Typhoon Hagibis, compared to 26.1 points of catastrophic activity in the 2018 fourth quarter primarily related to Hurricane Michael and the California Wildfires. In addition, the 2018 fourth quarter included a large attritional casualty loss arising from the California wildfires that increased the loss ratio by 5.0 points. Estimated net favorable development of prior year loss reserves, before related adjustments, reduced the loss ratio by 5.2 points in the 2019 fourth quarter, compared to 9.9 points in the 2018 fourth quarter.

## Mortgage Segment

(U.S. dollars in thousands)	Three Months Ended December 31,		
	2019	2018	% Change
Gross premiums written	\$ 370,658	\$ 357,981	3.5
Net premiums written	315,507	309,378	2.0
Net premiums earned	347,655	314,592	10.5
Other underwriting income	4,138	2,569	61.1
Underwriting income	\$ 276,514	\$ 245,804	12.5
<b>Underwriting Ratios</b>			<b>% Point Change</b>
Loss ratio	0.9%	2.1%	(1.2)
Underwriting expense ratio	20.7%	20.5%	0.2
Combined ratio	21.6%	22.6%	(1.0)
<b>Prior year development:</b>			
Net (favorable) adverse development in prior year loss reserves, net of related adjustments	(9.4)%	(10.4)%	1.0
Combined ratio excluding prior year development (1)	31.0%	33.0%	(2.0)

(1) See 'Comments on Regulation G' for further discussion.

Gross premiums written by the mortgage segment in the 2019 fourth quarter were 3.5% higher than in the 2018 fourth quarter, while net premiums written were 2.0% higher. The growth in net premiums written primarily reflected an increase in monthly premium business due to growth in insurance in force. The increase in net premiums earned for the 2019 fourth quarter reflected the growth in insurance in force in the U.S. over the last twelve months combined with higher single premium earned as a result of policy terminations due to mortgage refinance activity. Insurance in force increased to \$418.3 billion at December 31, 2019, compared to \$383.7 billion at December 31, 2018.

Arch MI U.S. generated \$24.1 billion of new insurance written (“NIW”) in the 2019 fourth quarter, compared to \$16.7 billion in the 2018 fourth quarter, primarily reflecting a higher level of mortgage refinance activity. Monthly premium policies contributed 94.4% of NIW in the 2019 fourth quarter, compared to 91.4% in the 2018 fourth quarter.

The loss ratio for the 2019 fourth quarter benefited from better than expected claim experience. Estimated net favorable development in prior year loss reserves, before related adjustments, improved the 2019 fourth quarter loss ratio by 9.4 points, compared to 10.4 points in the 2018 fourth quarter, while estimated net favorable development in current year loss reserves improved the 2019 fourth quarter loss ratio by 5.1 points, compared to 4.1 points in the 2018 fourth quarter. This was driven by lower expected claim rates on first lien business and, to a lesser extent, frequency improvement and subrogation activity on second lien and student loans. The percentage of loans in default on Arch MI U.S first lien business was 1.54% at December 31, 2019, compared to 1.60% at December 31, 2018.

## Corporate and Non-Underwriting

Corporate and non-underwriting results include net investment income, other income (loss), corporate expenses, transaction costs and other, amortization of intangible assets, interest expense, items related to the Company's non-cumulative preferred shares, net realized gains or losses, net impairment losses included in earnings, equity in net income or loss of investment funds accounted for using the equity method, net foreign exchange gains or losses and income taxes. Such amounts exclude the results of the ‘other’ segment.

Pre-tax net investment income for the 2019 fourth quarter was \$0.29 per share, or \$119.9 million, compared to \$0.28 per share, or \$115.6 million, for the 2018 fourth quarter. The growth in net investment income primarily reflected a higher level of income on fund investments. The annualized pre-tax investment income yield was 2.36% for the 2019 fourth quarter, compared to 2.49% for the 2018 fourth quarter, primarily due to the effects of a lower interest rate environment.

On a pre-tax basis, net foreign exchange losses for the 2019 fourth quarter were \$38.0 million, compared to net

foreign exchange gains for the 2018 fourth quarter of \$20.4 million. For both periods, such amounts were primarily unrealized and resulted from the effects of revaluing the Company's net insurance liabilities required to be settled in foreign currencies at each balance sheet date. Changes in the value of available-for-sale investments held in foreign currencies due to foreign currency rate movements are reflected as a direct increase or decrease to shareholders' equity and are not included in the consolidated statements of income. Although the Company generally attempts to match the currency of its projected liabilities with investments in the same currencies, the Company may elect to over or underweight one or more currencies from time to time, which could increase the Company's exposure to foreign currency fluctuations and increase the volatility of the Company's shareholders' equity.

The Company's effective tax rate on income before income taxes was 7.7% for the 2019 fourth quarter and 8.7% for the year ended December 31, 2019, compared to 20.4% for the 2018 fourth quarter and 13.1% for the year ended December 31, 2018. The Company's effective tax rate on pre-tax operating income available to Arch common shareholders was 6.9% for the 2019 fourth quarter and 10.4% for the year ended December 31, 2019, compared to 16.8% for the 2018 fourth quarter and 11.9% for the year ended December 31, 2018. The 2019 fourth quarter effective tax rate on operating income includes an adjustment to interim period taxes recorded at an annualized rate. This adjustment increased the Company's after-tax results, on pre-tax operating income available to Arch common shareholders, by \$12.4 million, or \$0.03 per share. The Company's effective tax rate may fluctuate from period to period based upon the relative mix of income or loss reported by jurisdiction, the level of catastrophic loss activity incurred, and the varying tax rates in each jurisdiction.

## Conference Call

The Company will hold a conference call for investors and analysts at 11:00 a.m. Eastern Time on February 12, 2020. A live webcast of this call will be available via the Investors section of the Company's website at <http://www.archcapgroup.com>. A telephone replay of the conference call also will be available beginning on February 12, 2020 at 2:00 p.m. Eastern Time until February 19, 2020 at midnight Eastern Time. To access the replay, domestic callers should dial 855-859-2056, and international callers should dial 404-537-3406 (passcode 1182464 for all callers).

Please refer to the Company's Financial Supplement dated December 31, 2019, which is available via the Investors section of the Company's website at <http://www.archcapgroup.com>. The Financial Supplement provides additional detail regarding the financial performance of the Company. From time to time, the Company posts additional financial information and presentations to its website, including information with respect to its subsidiaries. Investors and other recipients of this information are encouraged to check the Company's website regularly for additional information regarding the Company.

Arch Capital Group Ltd., a Bermuda-based company with approximately \$13.23 billion in capital at December 31, 2019, provides insurance, reinsurance and mortgage insurance on a worldwide basis through its wholly owned subsidiaries.

## Comments on Regulation G

Throughout this release, 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 and that investors and such other persons benefit from having a consistent basis for comparison between quarters and for comparison with other companies within the industry. These measures may not, however, be comparable to similarly titled measures used by companies outside of the insurance industry. Investors are cautioned not to place undue reliance on these non-GAAP financial measures in assessing the Company's overall financial performance.

This presentation includes the use of "after-tax operating income or loss available to Arch common shareholders," which is defined as net income available to Arch common shareholders, excluding net realized gains or losses, net impairment losses recognized in earnings, equity in net income or loss of investment funds accounted for using the equity method, net foreign exchange gains or losses, transaction costs and other and loss on redemption of preferred shares, net of income taxes, and the use of annualized operating return on average common equity. The presentation of after-tax operating income available to Arch common shareholders and annualized operating return on average common equity are non-GAAP financial measures as defined in Regulation G. The reconciliation of such measures to net income available to Arch common shareholders and annualized return on average common equity (the most directly comparable GAAP financial measures) in accordance with Regulation G is included on the following page of this release.

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, net foreign exchange gains or losses, transaction costs and other and loss on redemption of preferred shares in any particular period are not indicative of the performance of, or trends in, the Company's business performance. Although net realized gains or losses, net impairment losses recognized in earnings, equity in net income or loss of investment funds accounted for using the equity method and net foreign exchange gains or losses are an integral part of the Company's operations, the decision to realize investment gains or losses, the recognition of the change in the carrying value of investments accounted for using the fair value option in net realized gains or losses, the recognition of net impairment losses, 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 on the Company's investments 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 fair 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. Transaction costs and other include advisory, financing, legal, severance, incentive compensation and other costs related to acquisitions and Watford's non-recurring listing expenses. The Company believes that transaction costs and other, due to their non-recurring nature, are not indicative of the performance of, or trends in, the Company's business performance. The loss on redemption of preferred shares related to the redemption of the Company's Series C preferred shares in January 2018 and had no impact on shareholders' equity or cash flows. 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, net foreign exchange gains or losses, transaction costs and other and loss on redemption of preferred shares from the calculation of after-tax operating income or loss available to Arch common shareholders.

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

The Company's segment information includes the presentation of consolidated underwriting income or loss and a subtotal of underwriting income or loss before the contribution from the 'other' segment. Such measures represent the pre-tax profitability of its underwriting operations and include net premiums earned plus other underwriting income, less losses and loss adjustment expenses, acquisition expenses and other operating expenses. Other

operating expenses include those operating expenses that are incremental and/or directly attributable to the Company's individual underwriting operations. Underwriting income or loss does not incorporate items included in the Company's corporate (non-underwriting) segment. While these measures are presented in the Segment Information footnote to the Company's Consolidated Financial Statements, they are considered non-GAAP financial measures when presented elsewhere on a consolidated basis. The reconciliations of underwriting income or loss to income before income taxes (the most directly comparable GAAP financial measure) on a consolidated basis and a subtotal before the contribution from the 'other' segment, in accordance with Regulation G, is shown on the following pages.

Management measures segment performance for its three underwriting segments based on underwriting income or loss. The Company does not manage its assets by underwriting segment and, accordingly, investment income and other non-underwriting related items are not allocated to each underwriting segment. As noted earlier, the 'other' segment includes the results of Watford. Watford has its own management and board of directors that is responsible for its own results and profitability. For the 'other' segment, performance is measured based on net income or loss. The Company does not guarantee or provide credit support for Watford, and the Company's financial exposure to Watford is limited to its investment in Watford's senior notes, common and preferred shares and counterparty credit risk (mitigated by collateral) arising from reinsurance transactions.

Along with consolidated underwriting income, the Company provides a subtotal of underwriting income or loss before the contribution from the 'other' segment and believes that this presentation enables investors and other users of the Company's financial information to analyze the Company's underwriting performance in a manner similar to how the Company's management analyzes performance.

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

Total return on investments includes investment income, equity in net income or 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 Arch's investment portfolio. Total return is calculated on a pre-tax basis and before investment expenses, excludes amounts reflected in the 'other' segment, and reflects the effect of financial market conditions along with foreign currency fluctuations. Management uses total return on investments as a key measure of the

return generated to Arch common shareholders on the capital held in its business, and compares the return generated by the Company's investment portfolio against benchmark returns which it measures portfolio returns against during the periods presented.

The following tables summarize the Company's results by segment for the 2019 fourth quarter and 2018 fourth quarter and a reconciliation of underwriting income or loss to income or loss before income taxes and net income or loss available to Arch common shareholders:

(U.S. Dollars in thousands)

	Three Months Ended December 31, 2019					
	Insurance	Reinsurance	Mortgage	Sub-total	Other	Total
Gross premiums written (1)	\$1,040,240	\$ 432,249	\$ 370,658	\$1,842,071	\$156,254	\$1,942,151
Premiums ceded	(351,516)	(93,380)	(55,151)	(498,971)	(43,901)	(486,698)
Net premiums written	688,724	338,869	315,507	1,343,100	112,353	1,455,453
Change in unearned premiums	(42,927)	50,116	32,148	39,337	21,092	60,429
Net premiums earned	645,797	388,985	347,655	1,382,437	133,445	1,515,882
Other underwriting income	—	2,051	4,138	6,189	568	6,757
Losses and loss adjustment expenses	(446,798)	(260,182)	(3,287)	(710,267)	(134,655)	(844,922)
Acquisition expenses	(96,437)	(65,528)	(35,597)	(197,562)	(24,326)	(221,888)
Other operating expenses	(116,443)	(39,287)	(36,395)	(192,125)	(12,283)	(204,408)
Underwriting income (loss)	\$ (13,881)	\$ 26,039	\$ 276,514	288,672	(37,251)	251,421
Net investment income				119,906	34,357	154,263
Net realized gains (losses)				32,480	8,994	41,474
Net impairment losses recognized in earnings				(644)	—	(644)
Equity in net income (loss) of investment funds accounted for using the equity method				27,139	—	27,139
Other income				(1,317)	—	(1,317)
Corporate expenses				(17,756)	—	(17,756)
Transaction costs and other				(9,081)	—	(9,081)
Amortization of intangible assets				(21,890)	—	(21,890)
Interest expense				(23,641)	(7,558)	(31,199)
Net foreign exchange gains (losses)				(38,031)	(14,275)	(52,306)
Income (loss) before income taxes				355,837	(15,733)	340,104
Income tax expense				(27,336)	—	(27,336)
Net income (loss)				328,501	(15,733)	312,768
Dividends attributable to redeemable noncontrolling interests				—	(1,131)	(1,131)
Amounts attributable to nonredeemable noncontrolling interests				—	14,747	14,747
Net income (loss) available to Arch				328,501	(2,117)	326,384
Preferred dividends				(10,403)	—	(10,403)
Net income (loss) available to Arch common shareholders				\$ 318,098	\$ (2,117)	\$ 315,981
<b>Underwriting Ratios</b>						
Loss ratio	69.2%	66.9%	0.9%	51.4%	100.9%	55.7%
Acquisition expense ratio	14.9%	16.8%	10.2%	14.3%	18.2%	14.6%
Other operating expense ratio	18.0%	10.1%	10.5%	13.9%	9.2%	13.5%
Combined ratio	102.1%	93.8%	21.6%	79.6%	128.3%	83.8%
Net premiums written to gross premiums written	66.2%	78.4%	85.1%	72.9%	71.9%	74.9%

(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.

(U.S. Dollars in thousands)

Three Months Ended  
December 31, 2018

	Insurance	Reinsurance	Mortgage	Sub-total	Other	Total
Gross premiums written (1)	\$ 832,762	\$ 409,316	\$ 357,981	\$1,599,085	\$160,937	\$1,694,918
Premiums ceded	(297,794)	(84,268)	(48,603)	(429,691)	(28,577)	(393,164)
Net premiums written	534,968	325,048	309,378	1,169,394	132,360	1,301,754
Change in unearned premiums	24,449	23,405	5,214	53,068	14,613	67,681
Net premiums earned	559,417	348,453	314,592	1,222,462	146,973	1,369,435
Other underwriting income (loss)	—	(3,172)	2,569	(603)	630	27
Losses and loss adjustment expenses	(400,050)	(291,838)	(6,617)	(698,505)	(129,168)	(827,673)
Acquisition expenses	(85,608)	(62,452)	(30,930)	(178,990)	(30,329)	(209,319)
Other operating expenses	(89,403)	(32,165)	(33,810)	(155,378)	(10,137)	(165,515)
Underwriting income (loss)	\$ (15,644)	\$ (41,174)	\$ 245,804	188,986	(22,031)	166,955
Net investment income				115,626	41,591	157,217
Net realized gains (losses)				(66,015)	(100,015)	(166,030)
Net impairment losses recognized in earnings				(1,705)	—	(1,705)
Equity in net income (loss) of investment funds accounted for using the equity method				(6,882)	—	(6,882)
Other income				(42)	—	(42)
Corporate expenses				(15,278)	—	(15,278)
Transaction costs and other				(2,557)	(9,000)	(11,557)
Amortization of intangible assets				(26,147)	—	(26,147)
Interest expense				(24,388)	(5,386)	(29,774)
Net foreign exchange gains (losses)				20,409	4,170	24,579
Income (loss) before income taxes				182,007	(90,671)	91,336
Income tax expense				(35,012)	—	(35,012)
Net income (loss)				146,995	(90,671)	56,324
Dividends attributable to redeemable noncontrolling interests				—	(4,588)	(4,588)
Amounts attributable to nonredeemable noncontrolling interests				—	84,758	84,758
Net income (loss) available to Arch				146,995	(10,501)	136,494
Preferred dividends				(10,403)	—	(10,403)
Net income (loss) available to Arch common shareholders				\$ 136,592	\$ (10,501)	\$ 126,091
<b>Underwriting Ratios</b>						
Loss ratio	71.5%	83.8%	2.1%	57.1%	87.9%	60.4%
Acquisition expense ratio	15.3%	17.9%	9.8%	14.6%	20.6%	15.3%
Other operating expense ratio	16.0%	9.2%	10.7%	12.7%	6.9%	12.1%
Combined ratio	102.8%	110.9%	22.6%	84.4%	115.4%	87.8%
Net premiums written to gross premiums written	64.2%	79.4%	86.4%	73.1%	82.2%	76.8%

(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.

## Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (“PSLRA”) provides a “safe harbor” for forward-looking statements. This release or any other written or oral statements made by or on behalf of the Company may include forward-looking statements, which reflect the Company’s current views with respect to future events and financial performance. All statements other than statements of historical fact included in or incorporated by reference in this release are forward-looking statements. Forward-looking statements, for purposes of the PSLRA or otherwise, can generally be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” and similar statements of a future or forward-looking nature or their negative or

variations or similar terminology.

Forward-looking statements involve the Company's current assessment of risks and uncertainties. Actual events and results may differ materially from those expressed or implied in these statements. Important factors that could cause actual events or results to differ materially from those indicated in such statements are discussed below and elsewhere in this release and in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"), and include:

- the Company's ability to successfully implement its business strategy during "soft" as well as "hard" markets;
- acceptance of the Company's business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and its insureds and reinsureds;
- the integration of any businesses the Company has acquired or may acquire into its existing operations;
- the Company's ability to maintain or improve its ratings, which may be affected by its ability to raise additional equity or debt financings, by ratings agencies' existing or new policies and practices, as well as other factors described herein;
- general economic and market conditions (including inflation, interest rates, unemployment, housing prices, foreign currency exchange rates, prevailing credit terms and the depth and duration of a recession) and conditions specific to the reinsurance and insurance markets (including the length and magnitude of the current "soft" market) in which the Company operates;
- competition, including increased competition, on the basis of pricing, capacity (including alternative sources of capital), coverage terms or other factors;
- developments in the world's financial and capital markets and the Company's access to such markets;
- the Company's ability to successfully enhance, integrate and maintain operating procedures (including information technology) to effectively support its current and new business;
- the loss of key personnel;
- accuracy of those estimates and judgments utilized in the preparation of the Company's financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, income taxes, contingencies and litigation, and any determination to use the deposit method of accounting, which for a relatively new insurance and reinsurance company, like the Company, are even more difficult to make than those made in a mature company since relatively limited historical information has been reported to the Company through December 31, 2019;
- greater than expected loss ratios on business written by the Company and adverse development on claim and/or claim expense liabilities related to business written by its insurance and reinsurance subsidiaries;
- severity and/or frequency of losses;
- claims resulting from natural or man-made catastrophic events or severe economic events in the Company's insurance, reinsurance and mortgage businesses could cause large losses and substantial volatility in the

Company's results of operations;

- the effect of climate change on the Company's business;
- acts of terrorism, political unrest and other hostilities or other unforecasted and unpredictable events;
- availability to the Company of reinsurance to manage its gross and net exposures and the cost of such reinsurance;
- the failure of reinsurers, managing general agents, third party administrators or others to meet their obligations to the Company;
- the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by the Company;
- the Company's investment performance, including legislative or regulatory developments that may adversely affect the fair value of the Company's investments;
- changes in general economic conditions, including new or continued sovereign debt concerns in Eurozone countries or downgrades of U.S. securities by credit rating agencies, which could affect the Company's business, financial condition and results of operations;
- the volatility of the Company's shareholders' equity from foreign currency fluctuations, which could increase due to us not matching portions of the Company's projected liabilities in foreign currencies with investments in the same currencies;
- changes in accounting principles or policies or in the Company's application of such accounting principles or policies;
- changes in the political environment of certain countries in which the Company operates, underwrites business or invests;
- a disruption caused by cyber-attacks or other technology breaches or failures on the Company or the Company's business partners and service providers, which could negatively impact the Company's business and/or expose the Company to litigation;
- statutory or regulatory developments, including as to tax policy matters and insurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda-based insurers or reinsurers and/or changes in regulations or tax laws applicable to the Company, its subsidiaries, brokers or customers, including the Tax Cuts and Jobs Act of 2017; and
- the other matters set forth under Item 1A "Risk Factors", Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of the Company's Annual Report on Form 10-K, as well as the other factors set forth in the Company's other documents on file with the SEC, and management's response to any of the aforementioned factors.

All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. 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. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

View source version on **businesswire.com**: <https://www.businesswire.com/news/home/20200211006038/en/>

Arch Capital Group Ltd.

François Morin: (441) 278-9250

Investor Relations

Donald Watson: (914) 872-3616; [dwatson@archcapservices.com](mailto:dwatson@archcapservices.com)

Source: Arch Capital Group Ltd.