



NEWS RELEASE

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

2019-10-29

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

- Net income available to Arch common shareholders of \$382.1 million, or \$0.92 per share, a 15.0% annualized return on average common equity, compared to \$217.0 million, or \$0.53 per share, for the 2018 third quarter;
- After-tax operating income available to Arch common shareholders, a non-GAAP measure, of \$261.0 million, or \$0.63 per share, a 10.3% annualized return on average common equity, compared to \$242.3 million, or \$0.59 per share, for the 2018 third quarter;
- Pre-tax current accident year catastrophic losses, net of reinsurance and reinstatement premiums<sup>(1)</sup> of \$68.0 million, primarily related to Hurricane Dorian and Typhoon Faxai;
- Favorable development in prior year loss reserves, net of related adjustments<sup>(1)</sup> of \$51.7 million;
- Combined ratio excluding catastrophic activity and prior year development<sup>(1)</sup> of 80.9%.
- Book value per common share of \$25.61 at September 30, 2019, a 3.9% increase in the 2019 third quarter and a 21.1% increase for the trailing twelve months;

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 September 30,			Three Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Gross premiums written	\$ 2,181,121	\$ 1,731,328	26.0	\$ 2,043,292	\$ 1,622,532	25.9
Net premiums written	1,613,457	1,333,553	21.0	1,457,705	1,181,876	23.3
Net premiums earned	1,438,023	1,290,878	11.4	1,312,191	1,155,255	13.6
Underwriting income	231,262	234,581	(1.4)	235,705	234,790	0.4
<b>Underwriting Ratios</b>			<b>% Point Change</b>			<b>% Point Change</b>
Loss ratio	55.8%	54.2%	1.6	53.8%	52.1%	1.7
Underwriting expense ratio	28.4%	28.1%	0.3	28.4%	28.0%	0.4
Combined ratio	84.2%	82.3%	1.9	82.2%	80.1%	2.1
Combined ratio excluding catastrophic activity and prior year development				80.9%	81.8%	(0.9)

(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 11% of Watford's outstanding common equity. 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income available to Arch common shareholders	\$ 382,050	\$ 217,006	\$ 1,278,726	\$ 587,525
Net realized (gains) losses	(79,122)	47,528	(319,403)	220,718
Net impairment losses recognized in earnings	1,163	492	2,521	1,124
Equity in net (income) loss of investment funds accounted for using the equity method	(17,130)	(15,982)	(96,533)	(52,523)
Net foreign exchange (gains) losses	(30,160)	(7,539)	(29,100)	(39,021)
Transaction costs and other	1,995	1,091	5,363	8,829
Loss on redemption of preferred shares	—	—	—	2,710
Income tax expense (benefit) (1)	2,156	(316)	12,708	(9,343)
After-tax operating income available to Arch common shareholders	\$ 260,952	\$ 242,280	\$ 854,282	\$ 720,019
<b>Diluted per common share results:</b>				
Net income available to Arch common shareholders	\$ 0.92	\$ 0.53	\$ 3.11	\$ 1.42
Net realized (gains) losses	(0.19)	0.12	(0.78)	0.53
Net impairment losses recognized in earnings	0.00	0.00	0.01	0.00
Equity in net (income) loss of investment funds accounted for using the equity method	(0.04)	(0.04)	(0.23)	(0.13)
Net foreign exchange (gains) losses	(0.07)	(0.02)	(0.07)	(0.09)
Transaction costs and other	0.00	0.00	0.01	0.02
Loss on redemption of preferred shares	—	—	—	0.01
Income tax expense (benefit) (1)	0.01	0.00	0.03	(0.02)
After-tax operating income available to Arch common shareholders	\$ 0.63	\$ 0.59	\$ 2.08	\$ 1.74
Weighted average common shares and common share equivalents outstanding — diluted	413,180,201	411,721,214	410,807,402	413,993,192
Beginning common shareholders' equity	\$ 9,977,352	\$ 8,383,755	\$ 8,659,827	\$ 8,324,047
Ending common shareholders' equity	10,378,096	8,575,148	10,378,096	8,575,148
Average common shareholders' equity	\$10,177,724	\$ 8,479,452	\$ 9,518,962	\$ 8,449,598
Annualized return on average common equity	15.0%	10.2%	17.9%	9.3%
Annualized operating return on average common equity	10.3%	11.4%	12.0%	11.4%

(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 approximate 11% 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 third quarter performance by operating segment. For additional details regarding the Company's operating segments, please refer to the Company's Financial Supplement dated September 30, 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).

## Insurance Segment

(U.S. dollars in thousands)	Three Months Ended September 30,		
	2019	2018	% Change
Gross premiums written	\$ 1,005,874	\$ 836,820	20.2
Net premiums written	703,840	576,852	22.0
Net premiums earned	605,336	561,058	7.9
Underwriting income	\$ (24,113)	\$ (26,713)	n/m
<b>Underwriting Ratios</b>			<b>% Point Change</b>
Loss ratio	69.8%	73.0%	(3.2)
Underwriting expense ratio	34.2%	31.8%	2.4
Combined ratio	104.0%	104.8%	(0.8)
Catastrophic activity and prior year development:			
Current accident year catastrophic events, net of reinsurance and reinstatement premiums	4.3%	5.8%	(1.5)
Net (favorable) adverse development in prior year loss reserves, net of related adjustments	(0.6)%	(1.2)%	0.6
Combined ratio excluding catastrophic activity and prior year development (1)	100.3%	100.2%	0.1

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

Gross premiums written by the insurance segment in the 2019 third quarter were 20.2% higher than in the 2018 third quarter while net premiums written were 22.0% higher than in the 2018 third quarter. Approximately thirty percent of the growth in net premiums written resulted from the Company's acquisition of a U.K. commercial lines

book of business on January 1, 2019, with the remainder reflecting growth in existing accounts and rate increases across most lines of business. Net premiums earned by the insurance segment in the 2019 third quarter were 7.9% higher than in the 2018 third quarter, and reflect changes in net premiums written over the previous five quarters.

The 2019 third quarter loss ratio reflected 4.3 points of current year catastrophic activity, primarily related to Hurricane Dorian, compared to 5.8 points in the 2018 third quarter, primarily related to Hurricane Florence. Estimated net favorable development of prior year loss reserves, before related adjustments, reduced the loss ratio by 0.7 points in the 2019 third quarter, compared to 1.1 points in the 2018 third quarter. The 2019 third quarter loss ratio also reflected a lower level of large attritional losses than in the 2018 third quarter.

The underwriting expense ratio was 34.2% in the 2019 third quarter, compared to 31.8% in the 2018 third quarter, with the increase primarily resulting from acquisitions made by the Company which increased the operating expense ratio. The impact of this increased level of expenses on the expense ratio was partially tempered by the growth in net premiums earned.

## Reinsurance Segment

(U.S. dollars in thousands)	Three Months Ended September 30,		
	2019	2018	% Change
Gross premiums written	\$ 662,572	\$ 435,396	52.2
Net premiums written	436,476	311,691	40.0
Net premiums earned	363,855	293,273	24.1
Other underwriting income (loss)	(1,208)	1,387	(1.9)
Underwriting income	\$ (2,658)	\$ 30,944	(108.6)
			% Point Change
Underwriting Ratios			
Loss ratio	74.3%	62.5%	11.8
Underwriting expense ratio	26.0%	27.4%	(1.4)
Combined ratio	100.3%	89.9%	10.4
Catastrophic activity and prior year development:			
Current accident year catastrophic events, net of reinsurance and reinstatement premiums	11.5%	8.7%	2.8
Net (favorable) adverse development in prior year loss reserves, net of related adjustments	(4.0)%	(11.3)%	7.3
Combined ratio excluding catastrophic activity and prior year development (1)	92.8%	92.5%	0.3

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

Gross premiums written by the reinsurance segment in the 2019 third quarter were 52.2% higher than in the 2018 third quarter, while net premiums written were 40.0% higher than in 2018 third quarter. The growth in gross premiums written primarily reflected new business opportunities in casualty and property lines, partially offset by a

decline in other specialty business, driven by reductions in motor and agriculture business. The growth in net premiums written is less than the growth in gross premiums written because a high proportion of the property business is subject to retrocessions. Net premiums earned by the reinsurance segment in the 2019 third quarter were 24.1% higher than in the 2018 third quarter, and reflect changes in net premiums written over the previous five quarters.

The 2019 third quarter loss ratio included 12.2 points of current year catastrophic activity, primarily related to Hurricane Dorian and Typhoon Faxai, compared to 9.5 points of catastrophic activity in the 2018 third quarter primarily related to Hurricane Florence and Typhoon Jebi. Estimated net favorable development of prior year loss reserves, before related adjustments, reduced the loss ratio by 4.2 points in the 2019 third quarter, compared to 11.7 points in the 2018 third quarter. In addition, the 2019 third quarter reflected a higher level of large loss activity than in the 2018 third quarter.

The underwriting expense ratio was 26.0% in the 2019 third quarter, compared to 27.4% in the 2018 third quarter, with the decrease primarily reflecting growth in net premiums earned and changes in mix of business.

## Mortgage Segment

(U.S. dollars in thousands)	Three Months Ended September 30,		
	2019	2018	% Change
Gross premiums written	\$ 375,092	\$ 350,559	7.0
Net premiums written	317,389	293,333	8.2
Net premiums earned	343,000	300,924	14.0
Other underwriting income	3,955	3,733	5.9
Underwriting income	\$ 262,476	\$ 230,559	13.8
<b>Underwriting Ratios</b>			<b>% Point Change</b>
Loss ratio	3.8%	3.2%	0.6
Underwriting expense ratio	20.8%	21.4%	(0.6)
Combined ratio	24.6%	24.6%	—
<b>Prior year development:</b>			
Net (favorable) adverse development in prior year loss reserves, net of related adjustments	(9.6)%	(12.5)%	2.9
Combined ratio excluding prior year development (1)	34.2%	37.1%	(2.9)

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

Gross premiums written by the mortgage segment in the 2019 third quarter were 7.0% higher than in the 2018 third quarter, while net premiums written were 8.2% 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 third 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 \$408.0 billion at September 30, 2019, compared to \$372.8 at September 30, 2018.

Arch MI U.S. generated \$25.3 billion of new insurance written (“NIW”) in the 2019 third quarter, compared to \$21.4 billion in the 2018 third quarter, reflecting the significant increase in mortgage originations in the industry. Monthly premium policies contributed 92.3% of NIW in the 2019 third quarter, consistent with 92.6% in the 2018 third quarter.

The loss ratio for the 2019 third quarter reflected estimated net favorable development in prior year loss reserves, before related adjustments, of 9.6 points in the 2019 third quarter, compared to 12.8 points in the 2018 third quarter. The estimated net favorable development in the 2019 third quarter was primarily driven by lower expected claim rates on first lien business and, to a lesser extent, subrogation activity on second lien business. This lower than expected claim experience was also observed on current year delinquencies, which improved the current quarter loss ratio by 1.8 points, compared to 2.8 points in the same quarter one year ago. The percentage of loans in default on Arch MI U.S first lien business was 1.48% at September 30, 2019.

At September 30, 2019, the mortgage segment’s risk-in-force (before reinsurance) of \$79.2 billion consisted of \$72.9 billion from Arch MI U.S. with the remainder from reinsurance, credit-risk sharing and international insurance operations.

## 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 third quarter was \$0.31 per share, or \$126.9 million, compared to \$0.28 per share, or \$114.3 million, for the 2018 third quarter. The growth in net investment income primarily reflected an increase in average investable assets. The annualized pre-tax investment income yield was 2.58% for the 2019 third quarter, compared to 2.45% for the 2018 third quarter.

Interest expense for the 2019 third quarter was \$23.2 million, compared to \$24.7 million for the 2018 third quarter, with the lower level reflecting the paydown of revolving credit agreement borrowings in the second half of 2018.

On a pre-tax basis, net foreign exchange gains for the 2019 third quarter were \$29.8 million, compared to net foreign exchange gains for the 2018 third quarter of \$7.1 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 (based on the Company's estimated annual effective tax rate) was 8.9% for the 2019 third quarter, compared to 12.8% for the 2018 third quarter. The Company's effective tax rate on pre-tax operating income available to Arch common shareholders was 11.7% for the 2019 third quarter, compared to 11.8% for the 2018 third quarter. The effective tax rates for the 2019 third quarter included a discrete income tax benefit of \$1.3 million related to share-based compensation. This benefit had the effect of reducing the effective tax rate on operating income available to Arch common shareholders by 0.4%. 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 October 30, 2019. 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 October 30, 2019 at 2:00 p.m. Eastern Time until November 6, 2019 at midnight Eastern Time. To access the replay, domestic callers should dial 855-859-2056, and international callers should dial 404-537-3406 (passcode 3676736 for all callers).

Please refer to the Company's Financial Supplement dated September 30, 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 \$12.89 billion in capital at September 30, 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 third quarter and 2018 third 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 September 30, 2019					
	Insurance	Reinsurance	Mortgage	Sub-total	Other	Total
Gross premiums written (1)	\$ 1,005,874	\$ 662,572	\$ 375,092	\$ 2,043,292	\$ 249,960	\$ 2,181,121
Premiums ceded	(302,034)	(226,096)	(57,703)	(585,587)	(94,208)	(567,664)
Net premiums written	703,840	436,476	317,389	1,457,705	155,752	1,613,457
Change in unearned premiums	(98,504)	(72,621)	25,611	(145,514)	(29,920)	(175,434)
Net premiums earned	605,336	363,855	343,000	1,312,191	125,832	1,438,023
Other underwriting income	—	(1,208)	3,955	2,747	579	3,326
Losses and loss adjustment expenses	(422,782)	(270,379)	(13,080)	(706,241)	(96,214)	(802,455)
Acquisition expenses	(91,259)	(62,393)	(34,396)	(188,048)	(23,072)	(211,120)
Other operating expenses	(115,408)	(32,533)	(37,003)	(184,944)	(11,568)	(196,512)
Underwriting income (loss)	\$ (24,113)	\$ (2,658)	\$ 262,476	235,705	(4,443)	231,262
Net investment income				126,874	34,614	161,488
Net realized gains (losses)				81,177	(18,659)	62,518
Net impairment losses recognized in earnings				(1,163)	—	(1,163)
Equity in net income (loss) of investment funds accounted for using the equity method				17,130	—	17,130
Other income				1,338	—	1,338
Corporate expenses				(15,066)	—	(15,066)
Transaction costs and other				(1,995)	—	(1,995)
Amortization of intangible assets				(20,003)	—	(20,003)
Interest expense				(23,237)	(8,091)	(31,328)
Net foreign exchange gains (losses)				29,794	3,330	33,124
Income before income taxes				430,554	6,751	437,305
Income tax expense				(38,116)	—	(38,116)
Net income				392,438	6,751	399,189
Dividends attributable to redeemable noncontrolling interests				—	(6,600)	(6,600)
Amounts attributable to nonredeemable noncontrolling interests				—	(136)	(136)
Net income available to Arch				392,438	15	392,453
Preferred dividends				(10,403)	—	(10,403)
Net income available to Arch common shareholders				\$ 382,035	\$ 15	\$ 382,050
<b>Underwriting Ratios</b>						
Loss ratio	69.8%	74.3%	3.8%	53.8%	76.5%	55.8%
Acquisition expense ratio	15.1%	17.1%	10.0%	14.3%	18.3%	14.7%
Other operating expense ratio	19.1%	8.9%	10.8%	14.1%	9.2%	13.7%
Combined ratio	104.0%	100.3%	24.6%	82.2%	104.0%	84.2%
Net premiums written to gross premiums written	70.0%	65.9%	84.6%	71.3%	62.3%	74.0%

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

(U.S. Dollars in thousands)

Three Months Ended  
September 30, 2018

	Insurance	Reinsurance	Mortgage	Sub-total	Other	Total
Gross premiums written (1)	\$ 836,820	\$ 435,396	\$ 350,559	\$1,622,532	\$185,033	\$1,731,328
Premiums ceded	(259,968)	(123,705)	(57,226)	(440,656)	(33,356)	(397,775)
Net premiums written	576,852	311,691	293,333	1,181,876	151,677	1,333,553
Change in unearned premiums	(15,794)	(18,418)	7,591	(26,621)	(16,054)	(42,675)
Net premiums earned	561,058	293,273	300,924	1,155,255	135,623	1,290,878
Other underwriting income	—	1,387	3,733	5,120	703	5,823
Losses and loss adjustment expenses	(409,435)	(183,413)	(9,615)	(602,463)	(96,957)	(699,420)
Acquisition expenses	(88,255)	(50,367)	(33,361)	(171,983)	(29,619)	(201,602)
Other operating expenses	(90,081)	(29,936)	(31,122)	(151,139)	(9,959)	(161,098)
Underwriting income (loss)	\$ (26,713)	\$ 30,944	\$ 230,559	234,790	(209)	234,581
Net investment income				114,328	29,696	144,024
Net realized gains (losses)				(47,010)	(4,695)	(51,705)
Net impairment losses recognized in earnings				(492)	—	(492)
Equity in net income (loss) of investment funds accounted for using the equity method				15,982	—	15,982
Other income				(726)	—	(726)
Corporate expenses				(13,244)	—	(13,244)
Transaction costs and other				(1,091)	—	(1,091)
Amortization of intangible assets				(26,315)	—	(26,315)
Interest expense				(24,666)	(5,064)	(29,730)
Net foreign exchange gains (losses)				7,130	3,708	10,838
Income before income taxes				258,686	23,436	282,122
Income tax expense				(33,356)	—	(33,356)
Net income				225,330	23,436	248,766
Dividends attributable to redeemable noncontrolling interests				—	(4,599)	(4,599)
Amounts attributable to nonredeemable noncontrolling interests				—	(16,759)	(16,759)
Net income available to Arch				225,330	2,078	227,408
Preferred dividends				(10,402)	—	(10,402)
Net income available to Arch common shareholders				\$ 214,928	\$ 2,078	\$ 217,006
<b>Underwriting Ratios</b>						
Loss ratio	73.0%	62.5%	3.2%	52.1%	71.5%	54.2%
Acquisition expense ratio	15.7%	17.2%	11.1%	14.9%	21.8%	15.6%
Other operating expense ratio	16.1%	10.2%	10.3%	13.1%	7.3%	12.5%
Combined ratio	104.8%	89.9%	24.6%	80.1%	100.6%	82.3%
Net premiums written to gross premiums written	68.9%	71.6%	83.7%	72.8%	82.0%	77.0%

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

## 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 September 30, 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.

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