

**ARCH REINSURANCE LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(U.S. dollars in thousands, except share data)

|   | <b>(Unaudited)</b>   |                     |
|---|----------------------|---------------------|
|   | <b>September 30,</b> | <b>December 31,</b> |
|   | <b>2011</b>          | <b>2010</b>         |
| <b>Assets</b>   |                      |                     |
| Investments:  |                      |                     |
| Fixed maturities available for sale, at fair value (amortized cost: \$9,295,665 and \$8,764,478) .....                          | \$9,520,926          | \$8,950,265         |
| Short-term investments available for sale, at fair value<br>(amortized cost: \$804,411 and \$905,590).....                      | 796,179              | 907,943             |
| Investment of funds received under securities lending agreements, at fair value<br>(amortized cost: \$44,695 and \$69,682)..... | 44,553               | 69,660              |
| Equity securities available for sale, at fair value (cost: \$300,335 and \$292,958) .....                                       | 273,213              | 310,194             |
| Other investments available for sale, at fair value (cost: \$226,089 and \$252,590).....  | 229,974              | 275,538             |
| Investments accounted for using the fair value option.....  | 319,381              | 219,173             |
| TALF investments, at fair value (amortized cost: \$376,889 and \$389,200).....  | 392,455              | 402,449             |
| Investment funds accounted for using the equity method.....   | 383,543              | 508,334             |
| Total investments.....  | 11,960,224           | 11,643,556          |
| Cash.....   | 346,804              | 343,927             |
| Accrued investment income .....   | 71,211               | 74,772              |
| Investment in joint venture (cost: \$100,000).....  | 107,642              | 105,698             |
| Fixed maturities and short-term investments pledged under securities lending agreements, at market value...                     | 72,399               | 75,575              |
| Securities purchases under agreements to resell using funds received under securities lending.....                              | 20,032               | -                   |
| Premiums receivable .....   | 636,220              | 529,605             |
| Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses.....   | 1,959,692            | 1,878,076           |
| Prepaid reinsurance premiums.....   | 279,656              | 272,439             |
| Deferred acquisition costs, net.....  | 306,810              | 277,861             |
| Receivable for securities sold.....   | 1,067,188            | 56,143              |
| Other assets .....  | 562,948              | 498,746             |
| Total Assets .....  | \$17,390,826         | \$15,756,398        |
| <b>Liabilities</b>  |                      |                     |
| Reserve for losses and loss adjustment expenses.....  | \$8,641,305          | \$8,211,098         |
| Unearned premiums.....  | 1,590,229            | 1,379,066           |
| Reinsurance balances payable .....  | 135,506              | 142,218             |
| TALF borrowings, at fair value (par: \$314,371 and \$326,219).....  | 314,137              | 325,770             |
| Securities lending payable.....   | 74,696               | 78,021              |
| Payable for securities purchased.....   | 1,161,591            | 200,192             |
| Other liabilities .....   | 631,739              | 554,662             |
| Total Liabilities .....   | 12,549,203           | 10,891,027          |
| <b>Commitments and Contingencies</b>  |                      |                     |
| <b>Shareholder's Equity</b>   |                      |                     |
| Common shares (\$0.01 par, shares authorized: 2,625,000, issued: 2,560,423).....  | 2,560                | 2,560               |
| Additional paid-in capital .....  | 2,274,750            | 2,254,759           |
| Retained earnings .....   | 2,417,976            | 2,403,633           |
| Accumulated other comprehensive income, net of deferred income tax .....  | 146,337              | 204,419             |
| Total Shareholder's Equity .....  | 4,841,623            | 4,865,371           |
| Total Liabilities and Shareholder's Equity .....  | \$17,390,826         | \$15,756,398        |

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**ARCH REINSURANCE LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(U.S. dollars in thousands, except share data)

|  | (Unaudited)       |             |
|--|-------------------|-------------|
|  | Nine Months Ended |             |
|  | September 30,     |             |
|  | 2011              | 2010        |
| <b>Revenues</b>  |                   |             |
| Net premiums written.....  | \$2,162,202       | \$2,028,129 |
| Change in unearned premiums .....  | (203,579)         | (107,792)   |
| Net premiums earned .....  | 1,958,623         | 1,920,337   |
| Net investment income.....   | 258,742           | 275,014     |
| Net realized gains .....   | 95,906            | 178,430     |
| Other-than-temporary impairment losses .....   | (10,406)          | (9,732)     |
| Less investment impairments recognized in other comprehensive income, before taxes ..... | 3,303             | 1,641       |
| Net impairment losses recognized in earnings .....                                       | (7,103)           | (8,091)     |
| Equity in net income of investment funds accounted for using the equity method.....      | 5,097             | 38,410      |
| Other income .....   | 3,037             | 12,406      |
| Total revenues .....   | 2,314,302         | 2,416,506   |
| <b>Expenses</b>  |                   |             |
| Losses and loss adjustment expenses .....  | 1,349,486         | 1,150,389   |
| Acquisition expenses .....   | 339,598           | 336,378     |
| Other operating expenses .....   | 292,553           | 288,118     |
| Interest expense .....   | 6,331             | 5,350       |
| Net foreign exchange gains .....   | (4,753)           | (22,069)    |
| Total expenses.....  | 1,983,215         | 1,758,166   |
| Income before income taxes .....   | 331,087           | 658,340     |
| Income tax (benefit) expense.....  | (4,775)           | 10,978      |
| Net income .....   | \$335,862         | \$647,362   |

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