

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

	(Unaudited)	
	March 31, 2009	December 31, 2008
<b>Assets</b>		
Investments:		
Fixed maturities available for sale, at fair value (amortized cost: 2009, \$8,731,063; 2008, \$8,308,558).....	\$8,535,712	\$8,115,767
Short-term investments available for sale, at fair value (amortized cost: 2009, \$740,267; 2008, \$468,875)...	740,797	470,373
Investment of funds received under securities lending agreements, at fair value (amortized cost: 2009, \$571,102; 2008, \$950,330).....	550,821	730,194
Other investments (cost: 2009, \$114,779; 2008, \$125,858) .....	104,988	109,601
Investment funds accounted for using the equity method.....	293,452	301,027
<b>Total investments</b> .....	<b>10,225,770</b>	<b>9,726,962</b>
Cash.....	229,777	230,856
Accrued investment income .....	65,325	77,988
Investment in joint venture (cost: 2009 and 2008, \$100,000).....	101,143	98,341
Fixed maturities and short-term investments pledged under securities lending agreements, at fair value .....	559,691	728,065
Premiums receivable .....	769,903	660,575
Unpaid losses and loss adjustment expenses recoverable.....	1,842,627	1,860,674
Paid losses and loss adjustment expenses recoverable .....	76,945	63,883
Prepaid reinsurance premiums.....	302,516	320,501
Deferred income tax assets, net .....	61,080	59,223
Deferred acquisition costs, net.....	313,973	295,192
Receivable for securities sold .....	1,191,895	105,072
Other assets .....	323,889	339,221
<b>Total Assets</b> .....	<b>\$16,064,534</b>	<b>\$14,566,553</b>
<b>Liabilities</b>		
Reserve for losses and loss adjustment expenses.....	\$7,841,163	\$7,798,496
Unearned premiums.....	1,645,369	1,543,476
Reinsurance balances payable .....	176,783	153,082
Securities lending payable .....	574,337	753,528
Payable for securities purchased.....	1,433,732	123,309
Other liabilities .....	386,186	399,233
<b>Total Liabilities</b> .....	<b>12,057,570</b>	<b>10,771,124</b>
<b>Commitments and Contingencies</b>		
<b>Shareholder's Equity</b>		
Common shares (\$1.00 par value, 2,560,000 shares authorized, issued: 2009 and 2008, 2,560,000).....	2,560	2,560
Additional paid-in capital .....	2,200,310	2,196,071
Retained earnings .....	2,065,662	1,852,789
Accumulated other comprehensive income (loss), net of deferred income tax.....	(261,568)	(255,991)
<b>Total Shareholder's Equity</b> .....	<b>4,006,964</b>	<b>3,795,429</b>
<b>Total Liabilities and Shareholder's Equity</b> .....	<b>\$16,064,534</b>	<b>\$14,566,553</b>

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

	<b>(Unaudited)</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>		
Net premiums written .....	\$822,863	\$811,342
Increase in unearned premiums .....	(122,299)	(103,108)
Net premiums earned .....	700,564	708,234
Net investment income .....	96,113	121,381
Net realized gains (losses) .....	(5,217)	47,370
Total other-than-temporary impairment losses .....	(92,989)	(12,711)
Portion of loss recognized in other comprehensive income (loss), before taxes .....	56,855	—
Net impairment losses recognized in earnings .....	(36,134)	(12,711)
Fee income .....	55	186
Equity in net income (loss) of investment funds accounted for using the equity method .....	(9,581)	(22,313)
Other income .....	3,951	4,036
<b>Total revenues</b> .....	<b>749,751</b>	<b>846,183</b>
<b>Expenses</b>		
Losses and loss adjustment expenses .....	400,542	404,417
Acquisition expenses .....	126,458	114,639
Other operating expenses .....	80,758	91,602
Net foreign exchange (gains) losses .....	(25,205)	23,587
<b>Total expenses</b> .....	<b>582,553</b>	<b>634,245</b>
<b>Income before income taxes</b> .....	167,198	211,938
Income tax expense .....	9,333	7,791
<b>Net income</b> .....	<b>\$157,865</b>	<b>\$204,147</b>

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