

**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>2009</b>	<b>2008</b>
<b>Assets</b>		
Investments:		
Fixed maturities available for sale, at market value (amortized cost: 2009, \$9,014,159; 2008, \$8,308,558)...	\$9,259,508	\$8,115,767
Short-term investments available for sale, at market value (amortized cost: 2009, \$667,898; 2008, \$468,875).....	677,941	470,373
Investment of funds received under securities lending agreements, at market value (amortized cost: 2009, \$621,095; 2008, \$750,330).....	611,496	730,194
TALF investments, at market value.....	250,517	—
Other investments (cost: 2009, \$147,468; 2008, \$125,858) .....	154,526	109,601
Investment funds accounted for using the equity method.....	376,381	301,027
<b>Total investments</b> .....	<b>11,330,369</b>	<b>9,726,962</b>
Cash.....	368,060	230,856
Accrued investment income .....	77,705	77,988
Investment in joint venture (cost: 2009 and 2008, \$100,000).....	101,473	98,341
Fixed maturities and short-term investments pledged under securities lending agreements, at market value...	609,334	728,065
Premiums receivable .....	727,994	660,575
Unpaid losses and loss adjustment expenses recoverable.....	1,836,286	1,860,674
Paid losses and loss adjustment expenses recoverable .....	59,156	63,883
Prepaid reinsurance premiums.....	297,488	320,501
Deferred acquisition costs, net.....	303,826	295,192
Receivable for securities sold .....	998,431	105,072
Other assets .....	399,962	398,444
<b>Total Assets</b> .....	<b>\$17,110,084</b>	<b>\$14,566,553</b>
<b>Liabilities</b>		
Reserve for losses and loss adjustment expenses.....	\$8,006,116	\$7,798,496
Unearned premiums.....	1,641,717	1,543,476
Reinsurance balances payable .....	172,644	153,082
TALF borrowings, at market value.....	219,843	—
Securities lending payable .....	625,706	753,528
Payable for securities purchased.....	1,197,411	123,309
Other liabilities .....	433,276	399,233
<b>Total Liabilities</b> .....	<b>12,296,713</b>	<b>10,771,124</b>
<b>Commitments and Contingencies</b>		
<b>Shareholder's Equity</b>		
Common shares (\$1.00 par value, 2,625,000 shares authorized, issued: 2009 and 2008, 2,560,423).....	2,560	2,560
Additional paid-in capital .....	2,217,577	2,203,440
Retained earnings .....	2,371,662	1,845,420
Accumulated other comprehensive income (loss), net of deferred income tax.....	221,572	(255,991)
<b>Total Shareholder's Equity</b> .....	<b>4,813,371</b>	<b>3,795,429</b>
<b>Total Liabilities and Shareholder's Equity</b> .....	<b>\$17,110,084</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>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>		
Net premiums written .....	\$2,244,025	\$2,190,152
Increase in unearned premiums .....	(109,818)	(43,212)
Net premiums earned .....	<u>2,134,207</u>	<u>2,146,940</u>
Net investment income .....	296,177	355,283
Net realized gains .....	53,632	22,446
Other-than-temporary impairment losses .....	(142,663)	(105,905)
Less investment impairments recognized in other comprehensive income, before taxes .....	<u>81,023</u>	<u>—</u>
Net impairment losses recognized in earnings .....	(61,640)	(105,905)
Fee income .....	89	616
Equity in net income (loss) of investment funds accounted for using the equity method .....	135,428	(4,461)
Other income .....	<u>14,588</u>	<u>12,071</u>
<b>Total revenues</b> .....	<u><u>2,572,481</u></u>	<u><u>2,426,990</u></u>
<b>Expenses</b>		
Losses and loss adjustment expenses .....	1,244,314	1,357,928
Acquisition expenses .....	373,011	367,278
Other operating expenses .....	261,421	272,717
Interest expense .....	270	—
Net foreign exchange (gains) losses .....	<u>48,208</u>	<u>(45,106)</u>
<b>Total expenses</b> .....	<u><u>1,927,224</u></u>	<u><u>1,952,817</u></u>
<b>Income before income taxes</b> .....	645,257	474,173
Income tax expense .....	<u>20,076</u>	<u>10,885</u>
<b>Net income</b> .....	<u><u>\$625,181</u></u>	<u><u>\$463,288</u></u>

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