

ARCH CAPITAL GROUP LTD.  
Form 10-Q  
August 07, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the period ended June 30, 2015

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

Commission file number: 001-26456

ARCH CAPITAL GROUP LTD.  
(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction of incorporation or organization)

Not Applicable  
(I.R.S. Employer Identification No.)

Waterloo House, Ground Floor  
100 Pitts Bay Road, Pembroke HM 08  
(Address of principal executive offices)

(441) 278-9250  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated Filer  Accelerated Filer  Non-accelerated Filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 31, 2015, there were 122,441,665 common shares, \$0.0033 par value per share, of the registrant outstanding.

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Table of Contents

ARCH CAPITAL GROUP LTD.

INDEX

	Page No.
PART I. Financial Information	
Item 1 — Consolidated Financial Statements	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>2</u>
<u>Consolidated Balance Sheets</u> June 30, 2015 (unaudited) and December 31, 2014	<u>3</u>
<u>Consolidated Statements of Income</u> For the three and six month periods ended June 30, 2015 and 2014 (unaudited)	<u>4</u>
<u>Consolidated Statements of Comprehensive Income</u> For the three and six month periods ended June 30, 2015 and 2014 (unaudited)	<u>5</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u> For the six month periods ended June 30, 2015 and 2014 (unaudited)	<u>6</u>
<u>Consolidated Statements of Cash Flows</u> For the six month periods ended June 30, 2015 and 2014 (unaudited)	<u>7</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<u>Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>Item 3 — Quantitative and Qualitative Disclosures About Market Risk</u>	<u>79</u>
<u>Item 4 — Controls and Procedures</u>	<u>79</u>
<u>PART II. Other Information</u>	
<u>Item 1 — Legal Proceedings</u>	<u>79</u>
<u>Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>80</u>
<u>Item 5 — Other Information</u>	<u>80</u>
<u>Item 6 — Exhibits</u>	<u>80</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
Arch Capital Group Ltd.:

We have reviewed the accompanying consolidated balance sheet of Arch Capital Group Ltd. and its subsidiaries (the “Company”) as of June 30, 2015, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2015 and June 30, 2014, and the consolidated statements of changes in shareholders’ equity and cash flows for the six-month periods ended June 30, 2015 and June 30, 2014. These interim financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein), and in our report dated February 27, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2014, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York  
August 7, 2015

Table of Contents

## ARCH CAPITAL GROUP LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

	(Unaudited) June 30, 2015	December 31, 2014
Assets		
Investments:		
Fixed maturities available for sale, at fair value (amortized cost: \$9,945,598 and \$10,701,557)	\$9,927,603	\$10,750,770
Short-term investments available for sale, at fair value (amortized cost: \$878,437 and \$801,758)	875,727	797,226
Collateral received under securities lending, at fair value (amortized cost: \$373,909 and \$40,473)	377,897	44,301
Equity securities available for sale, at fair value (cost: \$615,055 and \$562,534)	701,623	658,182
Other investments available for sale, at fair value (cost: \$333,438 and \$264,747)	377,677	296,224
Investments accounted for using the fair value option	2,613,487	2,425,053
Investments accounted for using the equity method	472,926	349,014
Total investments	15,346,940	15,320,770
Cash	525,074	485,702
Accrued investment income	80,129	74,316
Securities pledged under securities lending, at fair value (amortized cost: \$374,447 and \$52,076)	373,969	50,802
Premiums receivable	1,181,636	948,695
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	1,831,227	1,812,845
Contractholder receivables	1,393,138	1,309,192
Prepaid reinsurance premiums	442,141	377,078
Deferred acquisition costs, net	448,647	414,525
Receivable for securities sold	454,057	78,170
Goodwill and intangible assets	102,518	109,539
Other assets	905,449	1,024,447
Total assets	\$23,084,925	\$22,006,081
Liabilities		
Reserve for losses and loss adjustment expenses	\$9,082,281	\$9,036,448
Unearned premiums	2,442,923	2,231,578
Reinsurance balances payable	252,462	219,312
Contractholder payables	1,393,138	1,309,192
Deposit accounting liabilities	277,523	327,384
Senior notes	791,222	791,141
Revolving credit agreement borrowings	100,000	100,000
Securities lending payable	383,965	50,529
Payable for securities purchased	468,015	128,413
Other liabilities	756,005	693,438
Total liabilities	15,947,534	14,887,435
Commitments and Contingencies		
Redeemable noncontrolling interests	204,996	219,512

Shareholders' Equity		
Non-cumulative preferred shares	325,000	325,000
Common shares (\$0.0033 par, shares issued: 172,780,590 and 171,672,408)	576	572
Additional paid-in capital	437,533	383,073
Retained earnings	7,242,728	6,854,571
Accumulated other comprehensive income, net of deferred income tax	66,441	128,856
Common shares held in treasury, at cost (shares: 50,376,681 and 44,304,474)	(1,934,763 )	(1,562,019 )
Total shareholders' equity available to Arch	6,137,515	6,130,053
Non-redeemable noncontrolling interests	794,880	769,081
Total shareholders' equity	6,932,395	6,899,134
Total liabilities, noncontrolling interests and shareholders' equity	\$23,084,925	\$22,006,081

See Notes to Consolidated Financial Statements

Table of Contents

ARCH CAPITAL GROUP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				