

ARCH CAPITAL GROUP LTD
Form DEF 14A
April 06, 2004

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ARCH CAPITAL GROUP LTD.

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14(a)-6(i)(1) and 0-11.
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- (4) Proposed maximum aggregate value of transaction: \$

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[Arch Capital Group Ltd. Letterhead]

April 5, 2004

Dear Shareholder:

I am pleased to invite you to the annual general meeting of the shareholders of Arch Capital Group Ltd. to be held on May 5, 2004, at 8:30 a.m. (local time), at The Fairmont Southampton Hotel, 101 South Shore Road, Southampton SN 02, Bermuda. The enclosed proxy statement provides you with detailed information regarding the business to be considered at the meeting.

Your vote is very important. Whether or not you plan to attend the meeting, please sign the enclosed proxy card and mail it promptly in the enclosed envelope.

Sincerely,

Robert Clements
Chairman of the Board

**ARCH CAPITAL GROUP LTD.
NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Notice is hereby given that the annual general meeting of the shareholders of Arch Capital Group Ltd. will be held on May 5, 2004, at 8:30 a.m. (local time), at The Fairmont Southampton Hotel, 101 South Shore Road, Southampton SN 02, Bermuda, for the following purposes:

PROPOSAL 1: To elect four Class III Directors to serve for a term of three years or until their respective successors are elected and qualified.

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PROPOSAL 2: To elect certain individuals as Designated Company Directors of certain of our non-U.S. subsidiaries.

PROPOSAL 3: To ratify the selection of PricewaterhouseCoopers LLP as our independent auditors for the year ending December 31, 2004.

PROPOSAL 4: To conduct other business if properly raised.

Only shareholders of record as of the close of business on March 29, 2004 may vote at the meeting.

Our audited financial statements for the year ended December 31, 2003, as approved by our Board of Directors, will be presented at this annual general meeting.

Your vote is very important. Please complete, sign, date and return your proxy card in the enclosed envelope promptly.

This proxy statement and accompanying form of proxy are dated April 5, 2004 and are first being mailed to shareholders on or about April 7, 2004.

Hamilton, Bermuda
April 5, 2004

Dawna Ferguson
Secretary

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THE ANNUAL GENERAL MEETING

We are furnishing this proxy statement to holders of our common shares in connection with the solicitation of proxies by our Board of Directors at the annual general meeting, and at any adjournments and postponements of the meeting.

Time and Place

The annual general meeting will be held at 8:30 a.m. (local time) on May 5, 2004 at The Fairmont Southampton Hotel, 101 South Shore Road, Southampton SN 02, Bermuda.

Record Date; Voting at the Annual General Meeting

Our Board of Directors has fixed the close of business on March 29, 2004 as the record date for determination of the shareholders entitled to notice of and to vote at the annual general meeting and any and all postponements or adjournments of the meeting. On the record date, there were 33,288,594 common shares outstanding and entitled to vote, subject to the limitations in our bye-laws described below. At that date, there were an estimated 197 holders of record and approximately 8,300 beneficial holders of the common shares. On the record date, there were 38,364,972 preference shares outstanding and entitled to vote, subject to the limitations in the certificate of designations and our bye-laws described below. There were 27 holders of record and beneficial holders of the preference shares. Each holder of record of shares on the record date is entitled to cast one vote per share, subject to the limitations described below. A shareholder may vote in person or by a properly executed proxy on each proposal put forth at the annual general meeting.

Limitation on Voting Under Our Bye-Laws

Under our bye-laws, if the votes conferred by shares of Arch Capital Group Ltd. ("ACGL" or the "Company"), directly or indirectly or constructively owned (within the meaning of section 958 of the Internal Revenue Code of 1986, as amended (the "Code")) by any U.S. person (as defined in section 7701(a)(30) of the Code) would otherwise represent more than 9.9% of the voting power of all shares entitled to vote generally at an election of directors, the votes conferred by such shares or such U.S. person will be reduced by whatever amount is necessary so that after any such reduction the votes conferred by the shares of such person will constitute 9.9% of the total voting power of all shares entitled to vote generally at an election of directors.

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There may be circumstances in which the votes conferred on a U.S. person are reduced to less than 9.9% as a result of the operation of our bye-laws because of shares, including shares held by private equity investment funds affiliated with Warburg Pincus LLC ("Warburg Pincus funds") and Hellman & Friedman LLC ("Hellman & Friedman funds"), that may be attributed to that person under the Code.

Notwithstanding the provisions of our bye-laws described above, after having applied such provisions as best as they consider reasonably practicable, the Board may make such final adjustments to the aggregate number of votes conferred by the shares of any U.S. person that they consider fair and reasonable in all the circumstances to ensure that such votes represent 9.9% of the aggregate voting power of the votes conferred by all shares of ACGL entitled to vote generally at an election of directors.

In order to implement our bye-laws, we will assume that all shareholders (other than the Warburg Pincus funds and the Hellman & Friedman funds) are U.S. persons unless we receive assurances satisfactory to us that they are not U.S. persons.

Quorum; Votes Required for Approval

The presence of two or more persons representing, in person or by properly executed proxy, not less than a majority of the voting power of our shares outstanding and entitled to vote at the annual general meeting is necessary to constitute a quorum. If a quorum is not present, the annual general meeting may be adjourned from time to time until a quorum is obtained. The affirmative vote of a majority of the voting power of the shares represented at the

annual general meeting will be required for approval of each of the proposals, except that Proposal 1 will be determined by a plurality of the votes cast.

An automated system administered by our transfer agent will tabulate votes cast by proxy at the annual general meeting, and our transfer agent will tabulate votes cast in person. Abstentions and broker non-votes (*i.e.*, shares held by a broker which are represented at the meeting but with respect to which such broker does not have discretionary authority to vote on a particular proposal) will be counted for purposes of determining whether or not a quorum exists.

Several of our officers and directors will be present at the annual general meeting and available to respond to questions. Our independent auditors are expected to be present at the annual general meeting, will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Voting and Revocation of Proxies

All shareholders should complete, sign and return the enclosed proxy card. All shares represented at the annual general meeting by properly executed proxies received before or at the annual general meeting, unless those proxies have been revoked, will be voted at the annual general meeting, including any postponement or adjournment of the annual general meeting. If no instructions are indicated on a properly executed proxy, the proxies will be deemed to be FOR approval of each of the proposals described in this proxy statement.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by either:

filing, including by facsimile, with the Secretary of the Company, before the vote at the annual general meeting is taken, a written notice of revocation bearing a later date than the date of the proxy or a later-dated proxy relating to the same shares or

attending the annual general meeting and voting in person.

In order to vote in person at the annual general meeting, shareholders must attend the annual general meeting and cast their vote in accordance with the voting procedures established for the annual general meeting. Attendance at the annual general meeting will not in and of itself constitute a revocation of a proxy. Any written notice of revocation or subsequent proxy must be sent so as to be delivered at or before the taking of the vote at the annual general meeting to Arch Capital Group Ltd., Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda, Facsimile: (441) 278-9255, Attention: Secretary.

Solicitation of Proxies

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Proxies are being solicited by and on behalf of the Board of Directors. In addition to the use of the mails, proxies may be solicited by personal interview, telephone, telegram, facsimile and advertisement in periodicals and postings, in each case by our directors, officers and employees.

We have retained MacKenzie Partners, Inc. to aid in the solicitation of proxies and to verify records related to the solicitation. We will pay MacKenzie Partners, Inc. fees of not more than \$4,500 plus expense reimbursement for its services. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward solicitation materials to beneficial owners and will be reimbursed for their reasonable expenses incurred in so doing. We may request by telephone, facsimile, mail, electronic mail or other means of communication the return of the proxy cards.

Other Matters

Our audited financial statements for the year ended December 31, 2003, as approved by our Board of Directors, will be presented at this annual general meeting.

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As of the date of this proxy statement, our Board of Directors knows of no matters that will be presented for consideration at the annual general meeting, other than as described in this proxy statement. If any other matters shall properly come before the annual general meeting or any adjournments or postponements of the annual general meeting and shall be voted on, the enclosed proxies will be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any of those matters. The persons named as proxies intend to vote or not vote in accordance with the recommendation of our Board of Directors and management.

Principal Executive Offices

Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (telephone number: (441) 295-1422), and our principal executive offices are located at Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda (telephone number: (441) 278-9250).

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PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors of ACGL is currently comprised of 12 members, divided into three classes, serving staggered three-year terms. The Board of Directors intends to present for action at the annual general meeting the election of Robert Clements, Wolfe "Bill" H. Bragin, John L. Bunce, Jr. and Sean D. Carney, whose present terms expire this year, to serve as Class III Directors for a term of three years or until their successors are duly elected and qualified. Such nominees were recommended for approval by the Board of Directors by the nominating committee of the Board.

Unless authority to vote for these nominees is withheld, the enclosed proxy will be voted for these nominees, except that the persons designated as proxies reserve discretion to cast their votes for other persons in the unanticipated event that any of these nominees is unable or declines to serve.

Nominees

Set forth below is information regarding the nominees for election:

Name	Age	Position
Robert Clements	71	Chairman and Class III Director of ACGL
Wolfe "Bill" H. Bragin	59	Class III Director of ACGL
John L. Bunce, Jr.	45	Class III Director of ACGL
Sean D. Carney	35	Class III Director of ACGL

Robert Clements was elected chairman and director of ACGL at the time of our formation in March 1995, and continues to serve in that capacity. From March 1996 to February 2001, he was an advisor to MMC Capital, with whom he served as chairman and chief executive officer

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from January 1994 to March 1996. Prior thereto, he served as president of Marsh & McLennan Companies, Inc. since 1992, having been vice chairman during 1991. He was chairman of J&H Marsh & McLennan, Incorporated (formerly Marsh & McLennan, Incorporated), a subsidiary of Marsh & McLennan Companies, Inc., from 1988 until March 1992. He joined Marsh & McLennan, Ltd., a Canadian subsidiary of Marsh & McLennan Companies, Inc., in 1959. Mr. Clements was a director of XL Capital from 1986 to 2002 and was formerly a director of Annuity and Life Re (Holdings), Ltd. and Stockton Reinsurance Limited and ACE Ltd. He is chairman emeritus of the Board of Overseers of the School of Risk Management, Insurance and Actuarial Science of St. John's University and a member of Rand Corp. President's Council. He holds a B.A. degree from Dartmouth College.

Wolfe "Bill" H. Bragin has served as a director of ACGL since May 2002. He served as vice president of GE Asset Management from 1985 until his retirement in 2002. He also served as a managing director of GE Asset Management until 2002. Mr. Bragin had been employed by various affiliates of General Electric Company since 1974, including GE Capital (formerly known as GE Credit Corporation), specializing in equipment leasing and private investments, through 1984, and, thereafter, GE Asset Management's Private Placement Group, specializing in private equity investments. Mr. Bragin has previously served as a director of both privately-held and publicly-traded companies. He holds a B.S. degree from the University of Connecticut and an M.B.A. degree from Babson Institute of Business Administration. Mr. Bragin was appointed to our Board of Directors pursuant to our shareholders agreement (the "Shareholders Agreement"), which is an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2003 ("2003 Annual Report").

John L. Bunce, Jr. has served as a director of ACGL since November 2001. Mr. Bunce is a managing director of Hellman & Friedman LLC, which he joined in 1988. Before joining Hellman & Friedman LLC, Mr. Bunce was vice president of TA Associates. Previously, he was employed in the mergers & acquisitions and corporate finance departments of Lehman Brothers Kuhn Loeb. He is currently also a director of National Information Consortium, Inc. and Western Wireless Corporation. He has also served as a director of Duhamel Falcon Cable Mexico, Eller Media Company, Falcon Cable TV, National Radio Partners, VoiceStream Wireless Corporation, and Young & Rubicam, Inc. Mr. Bunce also was an advisor to American Capital Corporation and Post Oak Bank. He holds an A.B. degree from Stanford University and an M.B.A. degree from Harvard Business School. Mr. Bunce was ap-

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pointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2003 Annual Report.

Sean D. Carney has served as a director of ACGL since July 2003. He has been a managing director of Warburg Pincus LLC since January 2001 and has been employed by Warburg Pincus since November 1996. From November 1995 to November 1996, Mr. Carney was employed by McKinsey & Company. He holds an A.B. from Harvard College and an M.B.A. from Harvard Business School. Mr. Carney was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2003 Annual Report.

Required Vote

A plurality of the votes cast at the annual general meeting will be required to elect the above nominees as Class III Directors of ACGL.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF ALL NOMINEES TO THE BOARD OF DIRECTORS.

Continuing Directors and Executive Officers

The following individuals are our continuing directors:

Name	Age	Position	Term Expires*
Constantine Iordanou	54	President and Chief Executive Officer of ACGL and Class II Director of ACGL	2006
Paul B. Ingrey	64	Chairman and Chief Executive Officer of Arch Reinsurance Ltd. and Class I Director of ACGL	2005
Peter A. Appel	42	Class II Director of ACGL	2006
Kewsong Lee	38	Class I Director of ACGL	2005
James J. Meenaghan	65	Class II Director of ACGL	2006
John M. Pasquesi	44	Vice Chairman and Class II Director of ACGL	2006

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Name	Age	Position	Term Expires*
David R. Tunnell	33	Class I Director of ACGL	2005
Robert F. Works	56	Class I Director of ACGL	2005

*

Indicates expiration of term as a director of ACGL

Constantine Iordanou has been president and chief executive officer of ACGL since August 2003 and a director since January 1, 2002. From January 2002 to July 2003, Mr. Iordanou was chief executive officer of Arch Capital Group (U.S.) Inc. From March 1992 through December 2001, Mr. Iordanou served in various capacities for Zurich Financial Services and its affiliates, including as senior executive vice president of group operations and business development of Zurich Financial Services, president of Zurich-American Specialties Division, chief operating officer and chief executive officer of Zurich-American and chief executive officer of Zurich North America. Prior to joining Zurich, he served as president of the commercial casualty division of the Berkshire Hathaway Group and served as senior vice president with the American Home Insurance Company, a member of the American International Group. He holds an aerospace engineering degree from New York University.

Paul B. Ingrey has served as a director of ACGL and as chief executive officer of Arch Reinsurance Ltd. ("Arch Re (Bermuda)") since October 2001, and was elected chairman of Arch Re (Bermuda) in March 2002. He was retired from 1996 to 2001. Mr. Ingrey was the founder of F&G Re Inc., a reinsurance subsidiary of USF&G Corporation, and served as its chairman and chief executive officer from 1983 to 1996. Prior to that, he was senior vice president of Prudential Reinsurance, an underwriter of property and casualty reinsurance. He has also served as a director of USF&G Corporation (until its sale to The St. Paul Companies, Inc. in 1998) and E.W. Blanch Holdings, Inc., the holding company for E.W. Blanch Co., which provides risk management and distribution services through several subsidiaries (until its sale to Benfield Greig, the London-based international reinsurance broker, in April 2001) and he was formerly a director of Fairfax Financial Holdings Limited, an insurance and reinsurance company

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with a focus on property and casualty insurance until September 2002. He holds a B.A. degree from Colgate University and an M.B.A. degree from the School of Risk Management, Insurance and Actuarial Science of St. John's University (formerly the College of Insurance).

Peter A. Appel was president and chief executive officer of ACGL from May 5, 2000 through July 31, 2003 and has been a director of ACGL since November 1999. He was executive vice president and chief operating officer of ACGL from November 1999 to May 5, 2000, and general counsel and secretary of ACGL from November 1995 to May 5, 2000. Mr. Appel previously served as a managing director of ACGL from November 1995 to November 1999. From September 1987 to November 1995, Mr. Appel practiced law with the New York firm of Willkie Farr & Gallagher LLP, where he was a partner from January 1995. He holds an A.B. degree from Colgate University and a law degree from Harvard University.

Kewsong Lee has served as a director of ACGL since November 2001. Mr. Lee has served as a member and managing director of Warburg Pincus LLC and a general partner of Warburg Pincus & Co. since January 1997. He has been employed at Warburg Pincus since 1992. Prior to joining Warburg Pincus, Mr. Lee was a consultant at McKinsey & Company, Inc., a management consulting company, from 1990 to 1992. His present service as a director includes membership on the boards of Knoll, Inc., Eagle Family Foods, Inc. and several privately held companies. He holds an A.B. degree from Harvard College and an M.B.A. degree from Harvard Business School. Mr. Lee was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2003 Annual Report.

James J. Meenaghan has been a director of the Company since October 2001. From October 1986 to 1993, Mr. Meenaghan was chairman, president and chief executive officer of Home Insurance Companies. He also served as president and chief executive officer of John F. Sullivan Co. from 1983 to 1986. Prior thereto, Mr. Meenaghan held various positions over 20 years with the Fireman's Fund Insurance Company, including president and chief operating officer and vice chairman of its parent company, American Express Insurance Services Inc. He holds a B.S. degree from Fordham University.

John M. Pasquesi has been our vice chairman and a director of ACGL since November 2001. Mr. Pasquesi has been the managing member of Otter Capital LLC, a private equity investment firm founded by him in January 2001. Prior to January 2001, Mr. Pasquesi was a managing director of Hellman & Friedman LLC since 1988. He holds an A.B. degree from Dartmouth College and an M.B.A. degree from Stanford Graduate School of Business.

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David R. Tunnell has been a director of ACGL since May 2002. He has served as a managing director of Hellman & Friedman LLC since 2003. Prior to joining Hellman & Friedman LLC in 1994, Mr. Tunnell was employed by Lazard Frères & Co. in New York from 1992 to 1994. Mr. Tunnell currently serves as a director of Blackbaud, Inc. He holds an A.B. degree from Harvard College and an M.B.A. degree from Harvard Business School. Mr. Tunnell was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2003 Annual Report.

Robert F. Works has been a director of ACGL since June 1999. Mr. Works was a managing director of Jones Lang LaSalle (previously LaSalle Partners) until he retired on December 31, 2001. He joined Jones Lang LaSalle in 1981, where he has served in various capacities, including manager of both the Property Management and Investment Management teams of the Eastern Region of the United States. Mr. Works was also manager for the Times Square Development Advisory and Chelsea Piers Lease Advisory on behalf of New York State and the President of GCT Ventures and the Revitalization of Grand Central Terminal for the Metropolitan Transportation Authority until he retired on December 31, 2001. He holds a B.A. degree from the College of William and Mary.

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The following individuals are our executive officers and members of senior management who do not serve as directors of ACGL.

Name	Age	Position
John D. Vollaro	59	Executive Vice President, Chief Financial Officer and Treasurer of ACGL
Dwight R. Evans	51	President of Arch Re (Bermuda)
Ralph E. Jones, III	47	President and Chief Executive Officer of Arch Insurance Group Inc.
Marc Grandisson	36	Senior Vice President, Chief Underwriting Officer and Chief Actuary of Arch Re (Bermuda)
Mark D. Lyons	47	Executive Vice President and Chief Actuary of Arch Insurance Group Inc.
John F. Rathgeber	49	Managing Director and Chief Operating Officer of Arch Reinsurance Company
Louis T. Petrillo	38	President and General Counsel of Arch Capital Services Inc.

John D. Vollaro has been executive vice president and chief financial officer of ACGL since January 2002 and treasurer of ACGL since May 2002. Prior to joining us, Mr. Vollaro acted as an independent consultant in the insurance industry since March 2000. Prior to March 2000, Mr. Vollaro was president and chief operating officer of W.R. Berkley Corporation from January 1996 and a director from September 1995 until March 2000. Mr. Vollaro was chief executive officer of Signet Star Holdings, Inc., a joint venture between W.R. Berkley Corporation and General Re Corporation, from July 1993 to December 1995. Mr. Vollaro served as executive vice president of W.R. Berkley Corporation from 1991 until 1993, chief financial officer and treasurer of W.R. Berkley Corporation from 1983 to 1993 and senior vice president of W.R. Berkley Corporation from 1983 to 1991. He holds a B.S. degree from Long Island University.

Dwight R. Evans has served as president of Arch Re (Bermuda) since October 2001. From 1998 until October 2001, Mr. Evans was executive vice president of St. Paul Re. From 1983 until 1998, Mr. Evans was employed as executive vice president for F&G Re Inc. Prior to that, Mr. Evans served as assistant vice president at Skandia Reinsurance Company and as a reinsurance underwriter at Prudential Reinsurance Company (now Everest Re Company). He holds a B.A. degree from Ohio University.

Ralph E. Jones, III joined Arch Insurance Group Inc. ("Arch Insurance Group") as president and chief executive officer on July 1, 2003. Prior to his tenure with Arch, he was chief executive officer of Chubb Specialty Insurance, a strategic business unit within the Chubb Group of Insurance Companies. Previously, he was managing director of Hiscox Insurance Company, Ltd., the United Kingdom and European property and casualty business of Hiscox, plc. Mr. Jones began his career with Chubb, where he served in various senior executive positions, including chief underwriting officer of Chubb Insurance Company of Europe and worldwide manager of its Executive Protection Department. He holds a B.A. from Wesleyan University.

Marc Grandisson has served as senior vice president, chief underwriting officer and chief actuary of Arch Re (Bermuda) since October 2001. From March 1999 until October 2001, Mr. Grandisson was employed as vice president and actuary of the reinsurance division of Berkshire Hathaway. From July 1996 until February 1999, Mr. Grandisson was employed as vice president-director of F&G Re Inc. From July 1994 until July 1996, Mr. Grandisson was employed as an actuary for F&G Re. Prior to that, Mr. Grandisson was employed as an actuarial assistant of Tillinghast-Towers Perrin. Mr. Grandisson holds an M.B.A. degree from the Wharton School of the University of Pennsylvania. He is also a fellow of the Casualty Actuarial Society.

Mark D. Lyons serves as executive vice president of group operations and chief actuary of Arch Insurance Group. From August 2002 to 2003, he was senior vice president of group operations and chief actuary of Arch Insurance Group. From 2001 until August 2002, Mr. Lyons worked as an independent consultant. From 1992 to 2001, Mr. Lyons was executive vice president of product services at Zurich U.S. From 1987 until 1992, Mr. Lyons was a vice president and actuary at Berkshire Hathaway Insurance Group. Mr. Lyons holds a B.S. degree from

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Elizabethtown College. He is also an associate of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

John F. Rathgeber has served as managing director and chief operating officer of Arch Reinsurance Company since December 2001. From 1998 until 2001, Mr. Rathgeber was executive vice president of the financial solutions business unit of St. Paul Re. From November 1992 until 1996, Mr. Rathgeber was employed as a vice president in the non-traditional underwriting department at F&G Re, and from 1996 until 1998, Mr. Rathgeber served as a senior vice president of non-traditional reinsurance. Prior to joining F&G Re, Mr. Rathgeber was employed by Prudential Re from 1980 until 1992. During that time, he held various underwriting positions, and from 1988 until 1992, Mr. Rathgeber was a director in the actuarial department. Mr. Rathgeber holds a B.A. from Williams College. He is also a chartered property and casualty underwriter, a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Louis T. Petrillo has been president and general counsel of Arch Capital Services Inc. since April 2002. From May 2000 to April 2002, he was senior vice president, general counsel and secretary of ACGL. From 1996 until May 2000, Mr. Petrillo was vice president and associate general counsel of ACGL's reinsurance subsidiary. Prior to that time, Mr. Petrillo practiced law at the New York firm of Willkie Farr & Gallagher LLP. He holds a B.A. degree from Tufts University and a law degree from Columbia University.

Composition of the Board of Directors

The Board of Directors is required to determine which directors satisfy the criteria for independence under the rules of the National Association of Securities Dealers, Inc. (the "NASD"). To be considered independent, a director may not maintain any relationship that would interfere with his or her independent judgment in completing the duties of a director. The rules state that certain relationships preclude a board finding of independence, including a director who is, or during the past three years was, employed by the company, and any director who accepts any payments from the company in excess of \$60,000 during the current year or any of the past three years, other than director fees or payments arising solely from investments in the company's securities. The rules specifically provide that ownership of company stock by itself would not preclude a board finding of independence. Our Board of Directors currently consists of 12 directors, including 10 non-employee directors. Of such non-employee directors, two are former employees who concluded their services as employees during 2003 and one, our chairman of the Board, receives compensation in excess of \$60,000 for his services as chairman, and, therefore, are not considered independent under applicable NASD rules. Our Board of Directors has concluded that the following seven non-employee directors are independent in accordance with the director independence standards set forth in Rule 4200 of the rules of the NASD: Wolfe "Bill" H. Bragin, John L. Bunce, Jr., Sean D. Carney, Kewsong Lee, James J. Meenaghan, David R. Tunnell and Robert F. Works.

Pursuant to the Shareholders Agreement entered into in connection with the capital infusion in November 2001, the Warburg Pincus funds and the Hellman & Friedman funds are entitled to nominate a prescribed number of directors based on the respective retained percentages of their preference shares purchased in November 2001. Currently, our Board includes three directors nominated by the Warburg Pincus funds and two directors nominated by the Hellman & Friedman funds. As long as the Warburg Pincus funds retain at least 75% of their original investment and Hellman & Friedman funds retain at least 60% of their original investment, these shareholders together will be entitled to nominate a majority of directors to our Board. Messrs. Bragin, Carney and Lee are the designees of the Warburg Pincus funds, and Messrs. Tunnell and Bunce are the designees of the Hellman & Friedman funds. In addition, pursuant to our Shareholders Agreement, the Warburg Pincus funds and the Hellman & Friedman funds have agreed to take all acts to cause Mr. Clements to be duly elected as chairman of our Board of Directors for so long as he is willing and able to serve in such capacity.

Meetings and Committees of the Board of Directors

The Board of Directors held five sessions during 2003. The Board of Directors has established standing audit, capital management, compensation, executive, finance and investment, nominating and underwriting oversight committees. Each of the committees, except for the newly-formed underwriting oversight committee, has a written charter, which will be posted on our website at www.archcapgroup.bm on or before May 5, 2004, the date of our

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annual general meeting. None of the material on our website is incorporated herein by reference. In addition, a transaction committee was formed under the subscription agreement entered into in connection with our November 2001 capital infusion (the "Subscription Agreement"), which is an exhibit to our 2003 Annual Report. Each director attended 75% or more of all meetings of the Board and any committees on which the director served during fiscal year 2003, except for Mr. Bunce. Directors are encouraged but not required to attend our annual general meetings of shareholders. Eleven of the 12 directors at the date of the 2003 annual general meeting attended that meeting.

As long as at least one representative of the Warburg Pincus funds is on the Board of Directors, each board committee will include at least one representative of the Warburg Pincus funds, and as long as at least one representative of the Hellman & Friedman funds is on the Board, each board committee will include at least one representative of the Hellman & Friedman funds. The foregoing is subject to the restrictions on service on the audit committee under the rules of the NASD and the Securities and Exchange Commission (the "SEC").

Audit Committee

The audit committee assists the Board of Directors in monitoring (1) the integrity of our financial statements, (2) the independent auditor's qualifications and independence, (3) the performance of our internal audit function and independent auditors and (4) the compliance by the Company with legal and regulatory requirements. During 2003, our Board of Directors adopted a revised written charter for the audit committee, which is included as *Appendix A* to this proxy statement. The audit committee currently consists of James J. Meenaghan (chairman), Wolfe "Bill" H. Bragin and Robert F. Works. All of such audit committee members are considered independent under the listing standards of the NASD governing the qualifications of the members of audit committees and the independence requirements under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Board of Directors has determined that Mr. Meenaghan qualifies as an "audit committee financial expert" under the rules of the SEC. The audit committee held four sessions during 2003. The report of the audit committee begins on page 11.

Capital Management Committee

The capital management committee of the Board of Directors oversees the Board of Directors' responsibilities relating to the capital management of the Company and to make recommendations to the Board of Directors on capital management issues, including debt and equity issuances and overall dividend policy. The capital management committee currently consists of John M. Pasquesi (chairman), Peter A. Appel, John L. Bunce, Jr., Robert Clements, Constantine Iordanou, Kewsong Lee and James J. Meenaghan. The capital management committee held two sessions during 2003.

Compensation Committee

The compensation committee of the Board of Directors approves the compensation of our senior executives and has overall responsibility for approving and evaluating, and making recommendations to the Board regarding, our officer compensation plans, policies and programs. The compensation committee currently consists of John L. Bunce, Jr. (chairman), Kewsong Lee, James J. Meenaghan and Robert F. Works. All of such compensation committee members are considered independent under the listing standards of the NASD governing the qualifications of the members of compensation committees. None of the members of the committee are or have been officers or employees of the Company. In addition, no executive officer of the Company served on any Board of Directors or compensation committee of any entity (other than ACGL) with which any member of our Board serves as an executive officer. The compensation committee held four sessions during 2003. The report of the compensation committee begins on page 21.

Executive Committee

The executive committee of the Board of Directors may generally exercise all the powers and authority of the Board of Directors, when it is not in session, in the management of our business and affairs, unless the Board of

Directors otherwise determines. The executive committee currently consists of Robert Clements (chairman), John L. Bunce, Jr., Constantine Iordanou and Kewsong Lee. The executive committee held one session during 2003.

Finance and Investment Committee

The finance and investment committee of the Board of Directors oversees the Board of Directors' responsibilities relating to the financial affairs of the Company and to recommend to the Board financial policies, strategic investments and overall investment policy, including review of manager selection, benchmarks and investment performance. The finance and investment committee currently consists of John M. Pasquesi (chairman), Peter A. Appel, John L. Bunce, Jr., Sean D. Carney and Constantine Iordanou. The finance and investment committee held four

sessions during 2003.

Nominating Committee

The nominating committee of the Board of Directors is responsible for identifying individuals qualified to become directors and recommending to the Board the director nominees for consideration at each annual meeting of shareholders. Our Board of Directors adopted a written charter for the nominating committee, which, as discussed above, will be available on our website at www.archcapgroup.bm on or before May 5, 2004, the date of our annual general meeting. The nominating committee consists of the following non-employee members of our Board of Directors, including Robert Clements (chairman), Wolfe "Bill" H. Bragin, John L. Bunce, Jr., Sean D. Carney, Kewsong Lee, James J. Meenaghan, David R. Tunnell and Robert F. Works. All of such nominating committee members are considered independent under the listing standards of the NASD governing the qualifications of the members of nominating committees, except for Mr. Clements. The NASD permits one director of a nominating committee comprised of at least three members to be non-independent as defined in Rule 4200 as long as (1) that non-independent member is not a current officer or employee and does not have any immediate family members who are officers or employees of the listed company and (2) the Board determines that such individual's membership on the nominating committee is in the best interests of the listed company and its shareholders. Mr. Clements, who has served as chairman of the committee since its inception, is a non-employee member of our Board who has over 44 years of experience in the insurance and reinsurance industry and has developed extensive industry contacts. In view of the foregoing, the Board determined that exceptional and limited circumstances exist to warrant the reappointment of Mr. Clements to the nominating committee. Under such exception, Mr. Clements may serve on the nominating committee for two years from the date of our annual general meeting. The nominating committee held one session during 2003.

When the Board determines to seek a new member, whether to fill a vacancy or otherwise, the nominating committee will consider recommendations from Board members, management and others, including shareholders. In general, the committee will look for new members, including candidates recommended by shareholders, possessing superior business judgment and integrity who have distinguished themselves in their chosen fields of endeavor and who have knowledge and experience in the areas of insurance, reinsurance or other aspects of our business, operations or activities. A shareholder who wishes to recommend a director candidate for consideration by the nominating committee should send such recommendation in writing to Corporate Secretary, Arch Capital Group Ltd., Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda and should comply with the advanced notice requirements set forth in our bye-laws, as described below on page 38 under the caption "Shareholder Proposals for the 2005 Annual General Meeting." As described in more detail on page 38, every submission must include a statement of the qualifications of the nominee, a consent signed by the candidate evidencing a willingness to serve as a director if elected, and a commitment by the candidate to meet personally, if requested, with the nominating committee. It is the policy of the committee to review and evaluate each candidate for nomination submitted by shareholders in accordance with the above procedures on the same basis as candidates that are suggested by our Board.

The nominating committee has not paid a fee to third parties in connection with the identification and evaluation of nominees, nor has it rejected a candidate recommended by a 5% shareholder, but, in each case, reserves the right to do so.

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Underwriting Oversight Committee

The underwriting oversight committee of the Board of Directors assists the Board by reviewing the underwriting activities of our insurance and reinsurance subsidiaries. The underwriting oversight committee currently consists of John M. Pasquesi (chairman), Sean D. Carney and David R. Tunnell. The underwriting oversight committee was formed in February 2004 and, therefore, did not meet during 2003.

Transaction Committee

The transaction committee of the Board of Directors was formed under the Subscription Agreement. Until the date of the final determination of the purchase price adjustment at the fourth anniversary of closing of the capital infusion (*i.e.*, November 20, 2005), approval of the following actions by the transaction committee is deemed to be approval by the entire Board:

an amendment, modification or waiver of rights by ACGL under the agreements relating to the capital infusion, including the Subscription Agreement, the certificate of designations for the preference shares or the Shareholders Agreement;

the enforcement of obligations of the investors under the above agreements; or

approval of actions relating to the disposition of non-core assets.

The transaction committee consists of persons who either (1) were members of our Board of Directors on October 22, 2001 and/or (2) were designated as members of the transaction committee by a person who was a member of our Board on October 22, 2001. The transaction committee currently consists of Robert Clements, Peter A. Appel, Constantine Iordanou, James J. Meenaghan and Robert F. Works. The transaction committee did not meet during 2003.

Communications with the Board of Directors

Shareholders may communicate with the Board of Directors or any of the directors by sending written communications addressed to the Board or any of the directors, c/o Corporate Secretary, Arch Capital Group Ltd., Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda. All shareholder communications will be compiled by the Corporate Secretary for review by the Board of Directors.

Report of the Audit Committee of the Board of Directors

The audit committee assists the Board of Directors in monitoring (1) the integrity of our financial statements, (2) the independent auditor's qualifications and independence, (3) the performance of our internal audit function and independent auditors and (4) the compliance by the Company with legal and regulatory requirements. The audit committee operates under a written charter, which is included as *Appendix A* to this proxy statement.

It is not the responsibility of the audit committee to plan or conduct audits or to determine that ACGL's financial statements are in all material respects complete and accurate and in accordance with generally accepted accounting principles ("GAAP"). This is the responsibility of management and the independent auditors. It is also not the responsibility of the audit committee to assure compliance with laws and regulations or with any codes or standards of conduct or related policies adopted by ACGL from time to time which seek to ensure that the business of ACGL is conducted in an ethical and legal manner.

The audit committee has reviewed and discussed the consolidated financial statements of ACGL and its subsidiaries set forth in Item 8 of our 2003 Annual Report with management of ACGL and PricewaterhouseCoopers LLP, independent auditors for ACGL.

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The audit committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended, which includes, among other items, matters relating to the conduct of an audit of ACGL's financial statements.

The audit committee has received the written confirmation from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 and has discussed with PricewaterhouseCoopers LLP their independence from ACGL.

Based on the review and discussions with management of ACGL and PricewaterhouseCoopers LLP referred to above and other matters the audit committee deemed relevant and appropriate, the audit committee has recommended to the Board of Directors that ACGL publish the consolidated financial statements of ACGL and subsidiaries for the year ended December 31, 2003 in our 2003 Annual Report.

AUDIT COMMITTEE
James J. Meenaghan (chairman)
Wolfe "Bill" H. Bragin
Robert F. Works

From March 2002 to February 2004, Kewsong Lee served as a member of the audit committee.

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Summary Compensation Table

The following table sets forth information regarding compensation paid to our executive officers for services rendered during fiscal years 2003, 2002 and 2001.

Long-Term Compensation

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Name and Principal Position	Year	Annual Compensation			Awards		
		Salary(\$)	Bonus(\$)	Other Annual Compensation (\$)(4)	Restricted Share Award(s) (\$)(5)	Securities Underlying Options (#)	All Other Compensation (\$)(6)
Constantine Iordanou President and Chief Executive Officer of ACGL(1) and Class II Director of ACGL	2003	1,000,000	937,504(2)	18,443	562,496(2)		141,116
	2002	1,000,000	875,000(3)		11,483,112(3)	425,000	105,247
Paul B. Ingrey Chairman and Chief Executive Officer of Arch Re (Bermuda) and Class I Director of ACGL	2003	750,000	1,750,000	25,771			79,650
	2002	750,000	1,000,000	22,271			87,693
	2001	143,200			7,366,778	422,407	
John D. Vollaro Executive Vice President, Chief Financial Officer and Treasurer of ACGL	2003	450,000	675,000	101,208			62,434
	2002	380,513	364,000(3)	52,322	1,421,000(3)	85,000	46,906
Dwight R. Evans President of Arch Re (Bermuda)	2003	600,000	549,230(2)(7)	196,026	126,755(2)		84,314
	2002	500,000	438,750(3)(7)	191,843	101,250(3)	25,000	59,880
	2001	95,500			872,000	100,000	
Marc Grandisson Senior Vice President, Chief Underwriting Officer and Chief Actuary of Arch Re (Bermuda)	2003	427,000	423,529(2)(7)	145,762	90,216(2)		21,664
Peter A. Appel Former President and Chief Executive Officer of ACGL and current Class II Director of ACGL(1)	2003	305,527	450,000				2,308,253(1)
	2002	500,000	437,500(3)		187,500(3)		68,295
	2001	375,000			750,000	422,407	50,841

- (1) Effective August 1, 2003, Mr. Iordanou succeeded Mr. Appel as president and chief executive officer of ACGL, and Mr. Appel remains on our Board of Directors. In connection therewith, ACGL entered into an agreement, effective as of July 31, 2003, and a non-core business payment agreement, dated August 4, 2003, with Mr. Appel. See " Employment Arrangements" and "Certain Relationships and Related Transactions."
- (2) A portion of the 2003 performance bonus for each of Messrs. Iordanou, Evans and Grandisson was paid in the form of common shares vesting in four equal installments on February 26, 2004, 2005, 2006 and 2007 as follows: (a) Mr. Iordanou \$750,000 in cash and \$750,000 in common shares; (b) Mr. Evans \$506,979 in cash and \$169,008 in common shares; and (c) Mr. Grandisson \$402,457 in cash and \$120,288 in common shares. The vested portions of such awards are reflected in the "Bonus" column, and the unvested portions of the awards are reflected in the "Restricted Share Award" column.
- (3) A portion of the 2002 performance bonus for each of Messrs. Iordanou, Vollaro, Evans and Appel was paid in the form of common shares or common share units vesting in four equal annual installments on February 20, 2003, 2004, 2005 and 2006 as follows: (a) Mr. Iordanou \$750,000 in cash and \$500,000 in common share units; (b) Mr. Vollaro \$312,000 in cash and \$208,000 in common shares; (c) Mr. Evans \$405,000 in cash and \$135,000 in common shares; and (d) Mr. Appel \$375,000 in cash and \$250,000 in common shares. The restricted share units granted to Mr. Iordanou will be settled in common shares of ACGL upon the termination of Mr. Iordanou's employment. The vested portions of such awards are reflected in the "Bonus" column, and

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the unvested portions of the awards are reflected in the "Restricted Share Award" column. Subsequent to grant, the restricted common shares granted to Mr. Appel vested to him in connection with the agreement entered into with him on July 31, 2003, and the vesting schedule for Mr. Vollaro's award has been modified, as described below under " Employment Arrangements."

- (4) Other annual compensation includes the following items relating to employment arrangements in Bermuda: (1) housing expenses in the amounts of (A) \$5,685 to Mr. Iordanou for 2003; (B) \$15,083 and \$22,271 to Mr. Ingrey for 2003 and 2002, respectively; (C) \$63,499 and \$52,322 to Mr. Vollaro for 2003 and 2002, respectively; (D) \$168,000 and \$156,346 to Mr. Evans for 2003 and 2002, respectively; and (E) \$126,000 to Mr. Grandisson for 2003; (2) tax reimbursements in the amounts of (A) \$10,688 to Mr. Iordanou for 2003; and (B) \$10,688 to Mr. Ingrey for 2003; and (3) an automobile allowance in the amount of \$26,022 to Mr. Vollaro for 2003.
- (5) The value of each restricted share award is based upon the closing price of the common shares as reported on the NASDAQ National Market as of the grant date of such award. As of December 31, 2003, an aggregate of 885,136 unvested restricted common shares and units, with an aggregate value of \$35,281,521, were held by the named executive officers as follows: (a) Mr. Iordanou 325,000 shares and 13,251 units, with an aggregate value of \$13,482,685, which shares will vest on December 31, 2006 and units will vest based on the schedule described in footnote 3 above; (b) Mr. Ingrey 422,407 shares, with a value of \$16,837,143, which shares will vest on October 23, 2004; (c) Mr. Vollaro 55,512 shares, with a value of \$2,212,708, of which 50,000 shares will vest on December 30, 2004 and 5,512 shares will vest as described below under " Employment Arrangements"; (d) Mr. Evans 53,577 shares, with a value of \$2,135,579, of which 50,000 shares will vest on October 23, 2004 and 3,577 shares will vest based on the schedule described in footnote 3 above; and (e) Mr. Grandisson 15,389 shares, with a value of \$613,406, of which 12,500 shares will vest on October 23, 2006 and 2,889 shares will vest based on the schedule described in footnote 3 above. Such amounts do not include the restricted shares granted as part of 2003 bonus amounts, as described in footnote 2 above, since such shares were not outstanding as of December 31, 2003. During the vesting period, cash dividends (if any) would be paid on outstanding shares of restricted stock. Stock dividends issued with respect to such shares (if any) would be subject to the same restrictions and other terms and conditions that apply to restricted shares with respect to which such dividends are issued.
- (6) Includes: (1) matching contributions under an employee 401(k) plan in the amounts of (A) \$9,000 and \$8,500 to Mr. Iordanou for 2003 and 2002, respectively; (B) \$9,000 and \$8,500 to Mr. Ingrey for 2003 and 2002, respectively; (C) \$9,000 and \$8,500 to Mr. Vollaro for 2003 and 2002, respectively; (D) \$9,000 and \$8,500 to Mr. Evans for 2003 and 2002, respectively; and (E) \$9,000, \$8,500 and \$7,650 to Mr. Appel for 2003, 2002 and 2001, respectively; (2) pension contributions pursuant to pension plans in the amounts of (A) \$15,650 and \$15,755 to Mr. Iordanou for 2003 and 2002, respectively; (B) \$15,650 and \$15,755 to Mr. Ingrey for 2003 and 2002, respectively; (C) \$15,650 and \$15,755 to Mr. Vollaro for 2003 and 2002, respectively; (D) \$15,650 and \$15,755 to Mr. Evans for 2003 and 2002, respectively; (E) \$20,000 to Mr. Grandisson for 2003; and (F) \$15,650, \$15,755 and \$12,980 to Mr. Appel for 2003, 2002 and 2001, respectively; (3) contributions under an executive supplemental non-qualified savings and retirement plan in the amounts of (A) \$116,000 and \$79,750 to Mr. Iordanou for 2003 and 2002, respectively; (B) \$55,000 and \$63,438 to Mr. Ingrey for 2003 and 2002, respectively; (C) \$36,250 and \$22,651 to Mr. Vollaro for 2003 and 2002, respectively; (D) \$58,000 and \$35,625 to Mr. Evans for 2003 and 2002, respectively; and (E) \$15,453, \$43,500 and \$29,725 to Mr. Appel for 2003, 2002 and 2001, respectively; and (4) term life insurance premiums in the amounts of (A) \$466 and \$1,242 to Mr. Iordanou for 2003 and 2002, respectively; (B) \$1,534 to Mr. Vollaro for 2003; (C) \$1,664 to Mr. Evans for 2003; (D) \$1,664 to Mr. Grandisson for 2003; and (E) \$203, \$540 and \$486 to Mr. Appel for 2003, 2002 and 2001, respectively.
- (7) Under our incentive compensation plan, a bonus pool for 2002 and 2003 underwriting years performance has been established for Mr. Evans, Mr. Grandisson and other officers who are part of our reinsurance operations (other than Mr. Ingrey). Under the plan, the 2002 and 2003 underwriting year bonus pools will be recalculated annually, and any resultant payments will be made to Mr. Evans and Mr. Grandisson over a 10-year development period.

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The following table provides information regarding the number and value of options held by each of our named executive officers as of December 31, 2003. No options were granted to, or exercised by, any of the named executive officers during 2003.

Aggregated 2003 Fiscal Year-End Option Values

Name	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Constantine Iordanou	283,334	141,666	\$ 4,635,344	\$ 2,317,656
Paul B. Ingrey	422,407		8,389,003	
John D. Vollaro	56,667	28,333	825,072	412,528
Dwight R. Evans	116,667	8,333	2,198,671	106,329

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	Number of Securities Underlying Unexercised Options at December 31, 2003	Value of Unexercised In-the-Money Options at December 31, 2003(1)
Marc Grandisson	37,500	744,750
Peter A. Appel	688,207	13,955,497

- (1) For purposes of the above table, options are "in-the-money" if the market price of the common shares on December 31, 2003 (*i.e.*, \$39.86) exceeded the exercise price of such options. The value of such options is calculated by determining the difference between the aggregate market price of the common shares subject to the options on December 31, 2003 and the aggregate exercise price of such options.

Employment Arrangements

Set forth below is a summary of the material terms of the employment arrangements with each of the named executive officers. See also " Summary Compensation Table" and " Report of Compensation Committee of the Board of Directors" for additional compensation information.

Constantine Iordanou

In January 2002, Mr. Iordanou was appointed to our Board of Directors and as chief executive officer of Arch Capital Group (U.S.) Inc., responsible for the general management and oversight of the U.S. insurance operations of Arch Capital Group (U.S.) Inc. and its affiliates. Effective August 1, 2003, Constantine Iordanou became president and chief executive officer of ACGL. His employment agreement currently provides for an annual base salary of \$1,000,000, which is subject to review annually for increase at the discretion of the Board. Mr. Iordanou is eligible to participate in an annual bonus plan on terms established from time to time and to participate in our employee benefit programs. The target rate for the annual cash bonus is 100% of his annual base salary. The initial term of Mr. Iordanou's employment agreement ends on January 1, 2007, but we or Mr. Iordanou may terminate his employment at any time. The agreement provides that it will be automatically extended for successive one-year periods after the initial five-year term unless either we or Mr. Iordanou gives at least 12 months notice of the intention not to renew.

The agreement provides that if Mr. Iordanou's employment is terminated by his death, he will receive a prorated portion of his bonus that would have been paid for the year of his death and an amount equal to two times the sum of his base salary and target annual bonus payable in a lump sum. His agreement also provides that if his employment is terminated due to his permanent disability, he will receive a prorated portion of his bonus that would have been paid for the year in which he becomes disabled, as determined by the Board, and an amount equal to 40% of his base salary payable in monthly installments during the period of his disability extending through the time period provided for in our disability plan. The agreement further provides that if we terminate Mr. Iordanou's employment without cause or he resigns for good reason, he will receive a prorated portion of his bonus that would have been paid for the year of his termination and an amount equal to two times the sum of his base salary and target annual bonus payable over an 18-month period in equal monthly installments. Mr. Iordanou's major medical insurance coverage benefits pursuant to his employment agreement shall continue for 18 months after the date of termination in the event that (1) his employment ends due to death or permanent disability, (2) he is terminated other than

for cause or (3) he resigns for good reason (or until such time as he has major medical insurance coverage under the plan of another employer). The agreement also provides that if Mr. Iordanou's employment is terminated by us for cause or he resigns other than for good reason, he will receive his base salary through the date of termination.

Mr. Iordanou has agreed that, during the employment period and for the period of 18 months after termination of employment, he will not compete with the businesses of ACGL or any of its subsidiaries as such businesses exist or are in process or being planned as of the date of termination. If we terminate Mr. Iordanou's employment without cause or he terminates for good reason, the term of his non-competition period will extend only as long as he is receiving benefits under the Company's major medical insurance coverage. Further, Mr. Iordanou has agreed to extend the non-competition period for a period of 18 months in the event of termination due to the expiration of the five-year term of his agreement if he is paid an amount equal to two times his base salary and annual target bonus (payable in equal monthly installments over that period) and he remains covered by the Company's major medical insurance plan. Mr. Iordanou also agreed that he will not, for an 18-month period following his date of termination, induce or attempt to induce any of our employees to leave his or her position with us or induce any customer to cease doing business with us.

As inducements essential to his entering into his employment agreement, as of January 1, 2002, we granted Mr. Iordanou, under our incentive plan, 106,383 restricted shares as a signing bonus, 325,000 additional restricted shares and options to purchase 425,000 common shares at an exercise price equal to \$23.50 per share. The restricted shares Mr. Iordanou received as a signing bonus vested on December 31,

2002, and the remaining 325,000 of his restricted shares will vest on December 31, 2006. In the event that his employment terminates due to his death or permanent disability or his employment is terminated by the Company without cause or he resigns for good reason, all of such 325,000 restricted shares will immediately vest. In the case of termination by the Company without cause or resignation for good reason, however, such newly vested shares may not be transferred until December 31, 2006 (except that, following such termination, he may sell an amount of shares to fund any income and employment taxes relating to the award). In the event of termination for any other reason, all restricted shares held by Mr. Iordanou will be forfeited. Mr. Iordanou's options to purchase 425,000 common shares are fully exercisable and will expire on January 1, 2012. In the event that Mr. Iordanou is terminated for cause, all of his options will cease to be exercisable and will be immediately forfeited. In the event that we terminate his employment other than for cause, he resigns for good reason or his employment terminates due to death or permanent disability, Mr. Iordanou's options will have a remaining term of three years following termination. In the event of termination for any other reason, all vested options held by Mr. Iordanou will remain exercisable for a period of 90 days from termination.

Paul B. Ingrey

Mr. Ingrey serves on our Board of Directors and as chairman and chief executive officer of Arch Re (Bermuda). His employment agreement currently provides for an annual base salary of \$750,000. The annual base salary is subject to review annually for increase at the discretion of the Board. The target rate for the annual cash bonus is 100% of the annual base salary. Mr. Ingrey is eligible to receive annual cash bonuses and share-based awards at the discretion of our Board and to participate in our employee benefit programs. The initial term of his employment agreement ends on October 23, 2004, but we or Mr. Ingrey may terminate his employment at any time. The agreement will be automatically extended for additional one-year periods, unless we or Mr. Ingrey gives notice at least 60 days prior to the expiration of the original term or any extended term. The agreement provides that if the employment of Mr. Ingrey is terminated without cause or for good reason before October 23, 2004, he will be entitled to receive an amount equal to his annual base salary. We are currently in discussions with Mr. Ingrey with respect to his continued service to our Company beyond the term of his current employment agreement.

Mr. Ingrey agreed that, during the employment period and for the period of two years after termination of employment, he will not compete with the businesses of ACGL or any of its subsidiaries as such businesses exist or are in process or being planned as of the date of termination. The non-competition period will be one year following termination if we terminate his employment without cause, he terminates for good reason or he gives notice of his intent not to extend his employment term in accordance with the employment agreement. In such case, we may extend the non-competition period to up to an additional six months following this one-year period if we pay his base salary for such additional six-month period. Mr. Ingrey also agreed that he will not, for a period of two years follow-

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ing termination, induce or attempt to induce any of our employees to leave his or her position with us or induce any customer to cease doing business with us.

On October 23, 2001, as inducements essential to his entering into an employment agreement, we granted Mr. Ingrey, under our incentive plan, 422,407 restricted shares and options to purchase 422,407 common shares at an exercise price equal to \$20.00 per share. Mr. Ingrey's restricted shares will vest on October 23, 2004. In the event that Mr. Ingrey's employment terminates due to his death or permanent disability or his employment is terminated by us without cause or he resigns for good reason, all of his restricted shares will immediately vest. In the event that Mr. Ingrey's employment is terminated by us without cause or he resigns for good reason, his restricted shares will become fully transferable pursuant to the normal vesting schedule (except that, following such termination, he may sell an amount of shares to fund any income and employment taxes relating to the award). In the event of termination for any other reason, all restricted shares held by Mr. Ingrey will be forfeited. Mr. Ingrey's options to purchase 422,407 common shares are fully exercisable and will expire on October 23, 2011. In the event that Mr. Ingrey is terminated for cause, all of his options will cease to be exercisable and will be immediately forfeited. In the event that we terminate his employment other than for cause, he resigns for good reason or his employment terminates due to death or permanent disability, Mr. Ingrey's options will have a remaining term of three years following termination. In the event of termination for any other reason, all vested options held by Mr. Ingrey will remain exercisable for a period of 90 days from termination.

John D. Vollaro

Mr. Vollaro has been appointed as our executive vice president, chief financial officer and treasurer. Mr. Vollaro's employment agreement currently provides for an annual base salary of \$480,000. Mr. Vollaro is eligible to participate in an annual bonus plan on terms established from time to time by our Board and to participate in our employee benefit programs. The target rate for the annual bonus is 100% of his annual base salary. The term of his employment agreement ends on January 18, 2005, but we or Mr. Vollaro may terminate his employment at any time. The agreement provides that it will be automatically extended for successive one-year periods after the initial three-year term unless either we or Mr. Vollaro gives at least 60 days notice of the intention not to renew.

The agreement provides that if Mr. Vollaro's employment is terminated without cause or for good reason before January 18, 2005, he will be entitled to receive an amount equal to the greater of (1) 18 months of his base salary and (2) the total remaining base salary which would have

been paid for the remainder of his employment term (payable in equal monthly installments commencing on the first month anniversary of the date of termination). The agreement also provides that if Mr. Vollaro's employment is terminated for cause, as a result of his resignation or leaving employment other than for good reason, as a result of death or permanent disability, or by written notice of the intention not to renew the agreement by us or Mr. Vollaro, he will be entitled to receive solely his base salary through the date of termination. The agreement further provides that if Mr. Vollaro's employment is terminated by reason of death or permanent disability, he will also be entitled to receive his annual bonus prorated through the date of termination, provided that such bonus will not be less than the average annual bonus received for the preceding three years; and, if he has not received bonuses for three years, he will receive a prorated portion of the average of the bonuses received, if any, but not less than a prorated portion of 90% of his base salary.

Mr. Vollaro has agreed that, during the employment period and for a period of two years after termination of employment for cause or as a result of his resignation or leaving employment other than for good reason, he will not compete with the businesses of ACGL or any of its subsidiaries as such businesses exist or are in process or being planned as of the date of termination. If we terminate Mr. Vollaro's employment without cause or he terminates for good reason, the term of his non-competition period will extend only as long as he is receiving his severance payments and benefits under our major medical insurance coverage. Further, Mr. Vollaro has agreed to a non-competition period of two years if his termination results from notice of the intent not to renew the agreement by us or Mr. Vollaro, and we agree in writing to pay him the sum of his annual base salary and target annual bonus for such period, payable in monthly installments over such period. Mr. Vollaro also agreed that he will not, for a period of two years following his date of termination, induce or attempt to induce any of our employees to leave his or her position with us or induce any customer to cease doing business with us.

As inducements essential to his entering into his employment agreement, on January 18, 2002, we granted Mr. Vollaro, under our incentive plan, 50,000 restricted shares and options to purchase 85,000 common shares at an exercise price equal to \$25.30 per share. Mr. Vollaro's 50,000 restricted shares were initially scheduled to vest on January 18, 2007. The vesting period for such shares (and 3,674 other shares that were originally scheduled to vest in two equal installments on February 20, 2005 and 2006) was changed such that the shares will vest on December 30, 2004. In connection with this change in vesting schedule, Mr. Vollaro agreed that the non-competition period under his employment agreement would not end earlier than January 18, 2007 under any circumstances. In the event that his employment is terminated by ACGL without cause or he resigns for good reason, or if his employment terminates due to written notice by us of the intent not to extend his employment contract, a pro rata number of restricted shares subj