

ARCH CAPITAL GROUP LTD.  
Form 10-Q  
August 08, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 30, 2014

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, Bermuda  
(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

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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  x

Accelerated filer  o

Non-accelerated filer  o

Smaller reporting company  o

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

Yes  o No  x

The number of the registrant’s common shares (par value, \$0.0033 per share) outstanding as of July 31, 2014 was 135,112,921.

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Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of Arch Capital Group Ltd. and its subsidiaries (the "Company") as of June 30, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2014 and June 30, 2013, and the condensed consolidated statements of changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2014 and June 30, 2013. 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 condensed 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, 2013, 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 March 3, 2014, 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, 2013, 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, NY  
August 8, 2014

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CONSOLIDATED BALANCE SHEETS

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

	(Unaudited) June 30, 2014	December 31, 2013
Assets		
Investments:		
Fixed maturities available for sale, at fair value (amortized cost: \$10,599,911 and \$9,564,634)	\$10,714,532	\$9,571,776
Short-term investments available for sale, at fair value (amortized cost: \$977,347 and \$1,477,584)	977,058	1,478,367
Investment of funds received under securities lending, at fair value (amortized cost: \$79,242 and \$97,943)	82,603	100,584
Equity securities available for sale, at fair value (cost: \$513,094 and \$433,275)	608,820	496,824
Other investments available for sale, at fair value (cost: \$428,958 and \$488,687)	457,567	498,310
Investments accounted for using the fair value option	2,041,091	1,221,534
Investments accounted for using the equity method	281,464	244,339
Total investments	15,163,135	13,611,734
Cash	926,443	434,057
Accrued investment income	64,869	66,848
Investment in joint venture (cost: \$100,000)	103,934	104,856
Fixed maturities and short-term investments pledged under securities lending, at fair value	87,031	105,081
Premiums receivable	1,098,692	753,924
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	1,796,403	1,804,330
Contractholder receivables	1,234,392	1,064,246
Prepaid reinsurance premiums	430,214	328,343
Deferred acquisition costs, net	399,385	342,314
Receivable for securities sold	261,669	50,555
Goodwill and intangible assets	118,721	27,319
Other assets	888,627	872,487
Total assets	\$22,573,515	\$19,566,094
Liabilities		
Reserve for losses and loss adjustment expenses	\$9,018,989	\$8,824,696
Unearned premiums	2,299,692	1,896,365
Reinsurance balances payable	263,347	196,167
Contractholder payables	1,234,392	1,064,246
Deposit accounting liabilities	397,337	421,297
Senior notes	800,000	800,000
Revolving credit agreement borrowings	100,000	100,000
Securities lending payable	89,298	107,999
Payable for securities purchased	552,075	51,318
Other liabilities	577,320	456,510
Total liabilities	15,332,450	13,918,598
Commitments and Contingencies		

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Redeemable noncontrolling interests	219,326	—
Shareholders' Equity		
Non-cumulative preferred shares	325,000	325,000
Common shares (\$0.0033 par, shares issued: 171,096,771 and 169,560,591)	570	565
Additional paid-in capital	353,208	299,517
Retained earnings	6,421,701	6,042,154
Accumulated other comprehensive income, net of deferred income tax	233,883	74,964
Common shares held in treasury, at cost (shares: 36,065,885 and 35,885,707)	(1,104,963 )	(1,094,704 )
Total shareholders' equity available to Arch	6,229,399	5,647,496
Non-redeemable noncontrolling interests (1)	792,340	—
Total shareholders' equity	7,021,739	5,647,496
Total liabilities, noncontrolling interests and shareholders' equity	\$22,573,515	\$19,566,094

(1) See Note 4.

See Notes to Consolidated Financial Statements

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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