

## **S&P Revises Outlook On Arch Capital Group And Subs To Positive**

Dow Jones & Company, Inc. -- July 9, 2009

The following is a press release from Standard & Poor's:

-- Arch Capital Group Ltd. continued to meet our expectations in the first quarter of 2009 as it posted strong operating results and continued to build a large, well-diversified franchise.

-- The group's operating performance in recent years has been stronger and less volatile than many of its peers'.

-- We are revising our outlook on Arch Capital Group and its related operating subsidiaries to positive from stable.

-- We are affirming our ratings on Arch Capital Group and its subsidiaries.

NEW YORK (Standard & Poor's) July 9, 2009--Standard & Poor's Ratings Services today said it revised its outlook on Bermuda-based insurance and reinsurance holding company Arch Capital Group Ltd. (ACGL) and its operating subsidiaries to positive from stable. At the same time, we affirmed our 'BBB+' counterparty credit and senior debt ratings on ACGL and our 'A' counterparty credit and financial strength ratings on ACGL's operating subsidiaries (collectively referred to as Arch).

"The positive outlook reflects Arch's consistent track record in reporting strong and better-than-peer-average operating results as well as its success in building a large and well-diversified franchise by product, client, and distribution source since its relaunch in 2001," said Standard & Poor's credit analyst Laline Carvalho. We also view the group's management and corporate strategy as a strength to the rating, with the senior management team continuing to lead the organization with a consistent strategy based on strong underwriting discipline, active cycle management, and strong enterprise risk management (ERM). The ratings are also supported by the group's very strong capital adequacy and moderate financial leverage.

Offsetting these positive factors are potential pricing and reserving risk related to the group's significant proportion of casualty writings, given continued competitive pricing in this segment and the potential negative impact of global macroeconomic conditions on long-tail lines of business. In addition, we believe new risks stemming from Arch's somewhat changing business mix as part of its cycle-management strategy could also carry additional pricing and reserving risk.

Arch has performed well on absolute and relative bases since 2001. During the past five years (2004-2008), the group reported an average combined ratio of 91%, a return on revenue (ROR) of 17%, and a return on equity (ROE) of 16%.

During this period, Arch was also one of the companies posting the least volatile operating results among its peer group, contributing to high-quality risk-adjusted earnings. Arch's operating performance remained strong during the first quarter of 2009, with the group reporting a combined ratio of 87% and an ROR of 23%. Standard & Poor's views Arch's earnings strength as one of the key factors supporting the positive outlook.

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Primary Credit Analyst: Laline Carvalho, New York (1) 212-438-7178;  
laline\_carvalho@standardandpoors.com

Secondary Credit Analyst: Dennis Sugrue, New York (1) 212-438-2635;  
dennis\_sugrue@standardandpoors.com

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